Austria	Sch 20	Indonesia	Rp 2500	Philippines	Pes 20
Bahrain	Din 0.650	Israel	IS 3.50	Portugal	Esc 90
Belgium	BFr 45	Italy	L 1500	S. Arabia	Rls 6.00
Canada	C$1.00	Japan	Y550	Singapore	S$4.10
Cyprus	C£0.70	Jordan	Fils 500	Spain	Pta 125
Denmark	DKr 8.00	Kuwait	Fils 500	Sri Lanka	Rup 30
Egypt	E£1.00	Lebanon	L 25.00	Sweden	SKr 7.00
Finland	FMk 6.50	Luxembourg	LFr 45	Switzerland	SFr 2.20
France	FFr 6.00	Malaysia	Rin 4.25	Taiwan	NT$65
Germany	DM 2.20	Mexico	Pes 300	Tunisia	Din 1.375
Greece	Dr 80	Morocco	Dh 6.00	Turkey	L 350
Hong Kong	HK$12	Netherlands	Fl 2.75	U.A.E.	Dh 6.50
India	Rup 15	Norway	NKr 7.00	U.S.A.	$1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,987 — Wednesday July 23 1986 — D 8523 B

Paying the price of weddings in Britain, Page 13

World news

Geneva hint of deal over Salt 2

Soviet and US arms-control experts began talks in Geneva on President Reagan's decision to repudiate the strategic arms limitation treaty (Salt 2) of 1979.

Moscow will be seeking a compromise before agreeing to a second summit, Soviet diplomats said. Signs of a possible deal were detected in a US statement expressing the desire that the Russians should join in establishing "an interim framework of truly mutual restraint."

West German Foreign Minister Hans-Dietrich Genscher said in Moscow that the superpowers should seek interim accords on missiles if full-scale agreement proved impossible. Page 2

Japanese reshuffle

Prime Minister Yasuhiro Nakasone announced a Cabinet reshuffle, bringing in new men to head the three most important departments of finance, trade and industry, and foreign affairs.

Basque expelled

France expelled a suspected Spanish Basque militant to Spain, the second in less than a week, saying he was preparing to carry out guerrilla attacks.

Poll to go ahead

Malaysia's general election will go ahead as planned on August 2 and 3 after the main opposition Democratic Action Party failed to win a High Court injunction to delay it.

France apologises

New Zealand Prime Minister David Lange said his country had received a formal apology and $7m compensation from France over the Rainbow Warrior affair shortly after two French agents held by New Zealand were flown out.

Land mine kills 31

Tamil terrorists blew a bus apart with a land mine, killing 31 people and wounding 25 others.

Trawlers attacked

A fisherman was shot dead and another seriously injured in one of two machinegun attacks on Spanish trawlers by unidentified assailants off the Morocco coast.

Royal wedding today

Thousands of people will line the streets of London today to watch the procession that follows the wedding of Prince Andrew to Miss Sarah Ferguson. Mrs Nancy Reagan is among the guests.

Protest to Nicaragua

The US will deliver a formal protest to Nicaragua today about the mistreatment and expulsion of two American journalists who were denied access to the American Embassy.

Journalist defended

New York Times correspondent John Burns, detained in China, violated travel restrictions but is no spy, the newspaper told officials.

UN chief unwell

United Nations Secretary General Javier Perez de Cuéllar, 66, who cancelled a trip to Africa this week, is undergoing routine tests "to evaluate his cardiac status" and will spend a few days in hospital in New York.

Titanic memorial

A small bronze plaque honouring the 1,513 people who perished when the Titanic sank 74 years ago was placed on the ship's stern by underwater explorers.

The hot war

Iran has sent ice-making equipment to the Faw peninsula to help cool its troops locked in battle with Iraq there in temperatures of 50°C (122°F).

Business summary

Renault to dilute stake in AMC

RENAULT, French state-owned car group, does not intend to take part in American Motors' planned $200m public offering of convertible preferred stock. The decision will reduce Renault's stake in the troubled US car manufacturer to about 40 per cent from 46.1 per cent. Page 15

WALL STREET: The Dow Jones industrial average closed up 16.02 at 1,795.13. Page 38

LONDON equities gave up some early strength and the FT ordinary index ended 1.6 lower at 1,274.7. Page 38

TOKYO stocks ended higher after some wide fluctuations during the session. The Nikkei market average added 117.1 to 17,639.32. Page 38

DOLLAR rose in London to DM 2.1370 (DM 2.1195); FFr 6.8975 (FFr 6.8525); SFr 1.7270 (SFr 1.7115), and Y156.75 (Y155.0). On Bank of England figures, the dollar's index rose to 112.3 from 111.9. Page 31

STERLING fell in London to $1.4905 ($1.4995). It rose to DM 3.1850 (DM 3.1775); SFr 2.5750 (SFr 2.5675); FFr 10.2800 (FFr 10.2750), and Y233.5 (Y232.5). The pound's exchange-rate index fell 0.8 to 72.8. Page 31

GOLD was unchanged at $353.75 on the London bullion market. It fell in Zurich to $353.70 from $354.25. Page 30

AUSTRIA: Nationalised industries face reorganisation after record losses last year for companies grouped within OIAG, the state holding company for the nationalised industries. Page 15

SHIPBUILDING: European Commission said production subsidies for troubled shipyards should be limited to a level that offsets the difference between the EEC's most competitive yards and rivals in Japan and South Korea. Page 2

AER LINGUS, Irish state-owned airline, announced a record 27 per cent increase in pre-tax profits of Irish £18.2m ($14m) for the year to end-March but warned of difficulties over plunging returns on the North Atlantic route and increased competition on London-Dublin.

UAL, holding company for United Airlines, returned to a net profit of $18.5m in the second quarter after a fare-cutting war. Page 15

UNION CARBIDE, third-largest US chemicals group, offered to sell its worldwide agricultural products division. Page 15

UNION DISCOUNT, one of London's leading discount houses, said it would drop out as a market-maker in the new trading structure for UK government securities planned for October. Page 14; Survival of the trimmest, Page 12

BANCTEXAS GROUP, the state's 10th-largest bank holding company which plans to liquidate through two separate asset sales, has reported a second-quarter loss of $8.6m. Page 15

MOBIL, second-biggest US oil major, posted a 42 per cent jump in second-quarter net earnings to $582m, which takes in a $196m gain from various special items, including the sale of the group's Angolan oil operations. Page 15

AECI, South Africa's largest diversified chemicals group, increased turnover by 21 per cent to R1.31bn ($52m) in the first half, principally because of an improvement in volume sales during the second quarter. Page 16

SEARS ROEBUCK, US retailing and financial services group, reported a 7.3 per cent rise in second-quarter net income to $284.9m. Page 15

AT&T-PHILIPS, the joint telecommunications venture between the American and Dutch groups, had increased losses of Fl 92m ($38.3m) in 1985 from Fl 56m the year before. Page 15

PEPSICO, US soft-drinks-to-snack-foods group, reported a 3.5 per cent drop in pre-tax profits from continuing operations and marginally higher net income of $120.7m in its second quarter.

US growth rate slows to 1.1% in second quarter

BY STEWART FLEMING IN WASHINGTON

ECONOMIC GROWTH in the US slowed to a real annual rate of only 1.1 per cent in the second quarter, the Commerce Department reported yesterday.

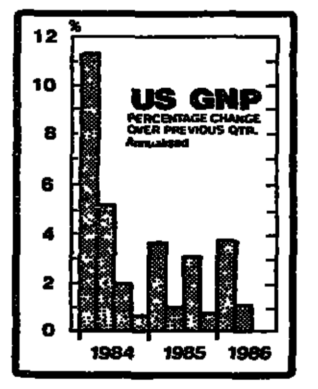
The sluggish rate of growth will help the Democratic Party to broaden its attack on the White House and the Republican Party in the run-up to the crucial mid-term congressional elections in November.

Wall Street, which had been expecting only a slim second-quarter rise in gross national product (GNP), took the news calmly. Share prices rallied modestly through much of the day. Long-term bond prices eased in the morning, a reaction some traders attributed to the upward revision from 2.9 per cent to 3.8 per cent in the rate of growth in the first quarter.

[The upward revision of first-quarter growth helped the dollar to recover from its recent slide and depressed US bond prices, although second-quarter growth, at an annualised 1.1 per cent, was lower than most analysts had predicted, George Graham writes.

[Many investors had been waiting for the GNP figure to indicate a new trend for the dollar, but, although trade was brisk, dealers said no clear direction had emerged. Most of the dollar's rise came from closing short positions, although there was some dollar buying from Japan.

[The dollar had fallen by 5½ pfennigs during last week amid mounting concern over signs of weakness in the US economy, but rebounded yesterday from a low point of DM 2.12 to close in London at DM 2.137, up 1¾ pfennigs on the day. The dollar gained Y1¾ to Y156.75.]



The performance of the US economy in the second quarter does nothing to alter the picture of a growth that has now slowed to a crawl.

Expansion over the past three quarters averages out at 2 per cent, and quarterly fluctuations around that level have been heavily influenced by swings in corporate inventories. That is well below the 4 per cent annual rate the Administration has been projecting and is helping to reawaken concerns about the outlook for the federal budget deficit.

The Administration is expected early next month to revise downwards its growth projections for the year to between 3 and 3.5 per cent.

Yesterday's announcement also provides a discouraging background to the testimony on the economy that Mr Paul Volcker, the Federal Reserve Board chairman, is scheduled to give in Congress today.

After the GNP report was published, there were signs of renewed political pressure on the Fed to follow up the half-a-percentage-point cut in its discount rate announced this month. Mr Robert Dole, the Senate Republican majority leader, called for the discount rate to be cut again to 5 or 5½ per cent.

Mr Malcolm Baldrige, the Commerce Secretary, conceded that both the strength and the timing of an upturn in the economy are in

Continued on Page 14

Money markets, Page 31

Syria cuts Morocco ties in protest at Peres visit

BY OUR MIDDLE EAST STAFF

SYRIA severed relations with Morocco yesterday in protest at the visit there by Mr Shimon Peres, Israel's Prime Minister. An official statement from Damascus described the decision by King Hassan to invite Mr Peres to Morocco as "black treason," and urged all Arab countries to follow its example.

Mr Peres arrived in Morocco on Monday night and held a first round of talks with King Hassan yesterday at Ifrane, east of Rabat, the capital. A Moroccan official said privately that the two men discussed the possibilities of a negotiated Middle East peace.

Morocco has yet publicly to acknowledge the Israeli leader's presence in the country and there has been no reference to it in the Moroccan press. Officials discounted suggestions that King Hussein of Jordan might join the talks later.

Libya is expected to follow Syria's lead by abrogating its two-year-old treaty of union with Morocco. Col Muammer Gadaffi, the Libyan leader, described the Moroccan action as a grave violation of the treaty.

However, there was suport from Egypt, the first Arab country to receive an Israeli premier in 1977. President Hosni Mubarak said he was sure King Hassan would do something to help the Middle East peace process.

The US warmly welcomed the meeting, which it said would enhance the peace process. Mr Larry Speakes, the White House spokesman, said the talks sympolised the change that was taking place in the Middle East.

"We have always urged direct contact between the Arabs and the Israelis as an essential step in the dialogue leading to peace," he said. "The US was aware of this meeting, but we regard is as a Moroccan–Israeli initiative which we strongly welcome."

Britain also said the talks between the two leaders were worthwhile. "It is too early yet to evaluate its full significance but we wish this imaginative initiative well," the Foreign Office said.

Israel cautioned against expecting too much from Mr Peres's visit. Mr Yossi Beilin, the Cabinet Secretary, said Mr Peres was carrying no specific peace plan with him.

"I do not think this is a meeting for the purpose of negotiations," he said. "We have here a meeting to clarify positions, getting to know the position of the other side."

Other Israeli officials, however, foresaw the start of a new Middle East coalition embracing Israel', Jordan, Egypt and Morocco, which would enjoy the tacit support of Saudi Arabia.

Mr Yitzhak Shamir, leader of the Likud bloc of political parties and who is due to take over as Prime Minister from Mr Peres in October, pledged to continue the process if the results of the talks were acceptable. But he emphasised that Mr Peres could offer no territorial concessions.

The Soviet Union predictably condemned the Peres trip. The newsagency Tass said it marked another US–Israeli attempt to force on Arab nations "capitulatory versions of a Middle East settlement."

Morocco treads Arab tightrope, Page 4

Saudis 'storing oil at sea'

BY LUCY KELLAWAY IN LONDON

SAUDI ARABIA is believed to have increased sharply its stocks of crude oil stored at sea in order to reassert its authority within the Organisation of Petroleum Exporting Countries (Opec) and to tighten its influence over the level of oil prices.

Norbec, the Saudi Arabian oil trading arm, is thought last week to have chartered six supertankers, which together have a capacity of nearly 12m barrels, with the option of using them for storage for the next 18 months.

The move came ahead of the renewed Opec meeting in Geneva which starts on July 28 and is aimed at securing agreement on sharing production quotas. The last Opec talks, at the end of June, broke up without agreement.

The prospect of continued overproduction by Opec pushed oil prices down sharply again yesterday. In the US, the price of West Texas Intermediate fell by nearly $2 yesterday morning to $11.15 a barrel, while North Sea Brent was traded for as little as $9.25, close to all-time lows.

The tankers disappeared mysteriously from the market early last week and at one point were thought to be connected with South Africa's heavy purchases of oil on the spot market.

Norbec yesterday denied that it had recently chartered any tankers. However, the state-owned company is not usually forthcoming about its deals in the tanker market, which are generally conducted on a highly secretive basis.

By adding to its floating storage, Saudi Arabia strengthens its ability to react promptly to any movement in oil prices by selling crude on a spot basis. In addition, the existence of such large supplies overhanging the market is expected to be used by Saudi Arabia to exert pressure on its fellow Opec members by giving it the ability to depress oil prices further very rapidly if there are no signs of an agreement.

The Norbec deal would go some way to account for the latest surge in Saudi oil production, which is estimated to be running at nearly 6m barrels a day (b/d), about 1m barrels more than in June, and about 2m b/d abovce the volumes committed under fixed contracts.

One oil industry executive said yesterday: "What the Saudis are up to is quite clear. They are telling the world, and in particular their Opec colleagues, that unless there is a firm commitment to quotas by everyone, Saudi Arabia will not play ball."

The tankers will join an existing Saudi fleet thought to consist of 12 in South-East Asia and about four off the coast of Senegal.

Mexico to break new ground with IMF debt deal

By David Gardner in Mexico City

MEXICO was yesterday set to break new ground in the four-year-old debt crisis with the signature of a fresh agreement with the International Monetary Fund (IMF).

The agreement, the initial stage of a $10bn rescue over the next 18 months, marks the first time the Fund has endorsed the principle of a growth-oriented reform package for a Latin American debtor nation.

The agreement also sets a precedent by involving the World Bank more closely in supporting structural reform of Mexico's debt-burdened economy.

To help in servicing the country's $97bn foreign debt, the IMF has included in the agreement an innovative compensatory finance facility to cover new oil-price falls. The sharp fall in the oil price has been a principal cause for Mexico's current difficulties.

The agreement furthermore skirts round the issue of a tighter budget deficit target for this year, which dragged out the negotiations for nearly 10 months, during which Mexico has lost more than half the oil revenue that provides two thirds of foreign exchange.

Mr Gustavo Petricioli, the Mexican Finance Minister, in a statement before leaving for Washington on Monday, hailed the agreement as "new and imaginative." He underlined that "this was the first time that international financial institutions have backed a non-recessionary economic programme to bring a country out of crisis."

According to the Mexican authorities, the agreement with the IMF is expected to release $1.5bn and will lead to a further $1.9bn from the World Bank. The new World Bank money, almost double previous suggested levels, will be earmarked to boost non-oil exports and further imports liberalisation; help to finance the reconversion of the public sector and private industry; and release funds for agricultural and technological development.

The agreement takes into account fluctuations in the average price of Mexican oil beyond a band of $9 to $14 a barrel. If the price falls below that threshold, it will trigger the release of further multilateral funds, while agreed funding will be reduced if prices above it. Ironically, such a mechanism was first floated in August last year by Mr Jesús Silva Herzog, the Charismatic Finance Minister dismissed last month.

According to the Mexican authorities, the agreement explicitly ac-

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Back at the bankers' doors, Page 5

PRESIDENT OPPOSES NEW SANCTIONS

Reagan says Pretoria must end apartheid

BY REGINALD DALE, US EDITOR, IN WASHINGTON

PRESIDENT Ronald Reagan yesterday called on the South African Government to take a series of steps leading to a negotiated end to apartheid, but strongly opposed new Western economic sanctions. "We must stay and work, not cut and run," he said.

In his first important policy speech on South Africa for nearly a year, Mr Reagan said Pretoria should set a timetable for the elimination of apartheid laws, release all political prisoners, including Mr Nelson Mandela, and legalise black political movements that are currently banned.

The Government and its opponents should "begin a dialogue about constructing a political system that rests upon the consent of the governed – where the rights of majorities, minorities and individuals are protected by law," Mr Reagan said. "No single race can monopolise the reins of political power."

Mr Reagan asked Mr George Shultz, the Secretary of State, to study the US aid programme to southern African countries to see what more could be done to expand the trade, private investment and transport prospects of the region's landlocked nations.

Mr Shultz would also continue intensive consultations to ensure that the West acted in concert.

It seemed unlikely, however, that Mr Reagan's speech would remove the strong pressures building for new US economic sanctions on Capitol Hill. Congressional leaders warned yesterday that the Republican-led Senate might approve a tough new sanctions package as early as this week. The Democrat-controlled House of Representatives has already passed legislation that would sever virtually all US economic links with South Africa.

Mr Reagan appealed to Congress and West European countries not to follow that route – "to resist this emotional clamour for punitive sanctions." It would be an "historic act of folly for the US and the West to write off South Africa," with its critical ocean corridor and strategic minerals. If the region exploded, the Soviet Union would be the main beneficiary, Mr Reagan said.

Mr Reagan said that, while time was running out for moderates of all races in South Africa, Mrs Margaret Thatcher, the British Prime Minister, was right to resist sanctions. The primary victims of an economic boycott would be South African blacks and neighbouring southern African countries, Mr Reagan said.

Bishop Desmond Tutu said President Reagan's speech was "nauseating" and accused the US leader of acting as President Botha's public-relations officer. The Anglican cleric and Nobel laureate angrily ended a British television interview by saying the West could "go to hell."

"Wherever blacks seek equal opportunity, higher wages, better working conditions, their strongest allies are the American, British, French, German and Dutch businessmen who bring to South Africa ideas of social justice formed in their own countries," Mr Reagan said.

Capitalism was "the natural enemy of such feudal institutions as apartheid."

Spelling out Mr Reagan's message, a senior Administration official said that US businesses should be encouraged to stay in South Africa. The US did not need a law stopping new investment in South Africa because it had already stopped.

Pretoria should listen to the message from the marketplace that resulted from its own "self-imposed economic sanctions." The economy was in bad shape and getting worse, there was no new investment, capital and skilled people were leaving the country, and unemployment rising. While the clock stood at a quarter to midnight, the South African Government could still avert catastrophe through political dialogue and restore a strong, vibrant economy, the official said.

Michael Holman in London writes: Mr Oliver Tambo, president of the African National Congress, has refused an invitation from Sir Geoffrey Howe, the British Foreign Secretary, to discuss the European Community's South Africa initiative, and has strongly condemned Britain's role.

In a letter to Sir Geoffrey, the text of which was released yesterday by the ANC, Mr Tambo said he was "convinced" that the initiative was "conceived in London in the context of a rejection by the British."

The ANC has been hostile to Sir Geoffrey's mission from the start and its leaders refused to meet him during him first visit in southern Africa earlier this month. In a letter to Mr Tambo sent last week, Sir Geoffrey urged the ANC president

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Little comfort for Howe, Page 3; EEC code, Page 7

CONTENTS

Chirac expected to make changes in French cabinet

BY PAUL BETTS IN PARIS

Chirac: new minister

SOME CHANGES in the French cabinet are expected this week, with Mr Camille Cabana, Minister with special responsibility for privatisation, being given another portfolio, and a new Minister for European Affairs being appointed.

Mr Cabana is likely to retain his position as privatisation minister until the Government's denationalisation bill is passed through Parliament in the next few weeks. He will then be offered a new ministerial post to prepare a series of administrative reforms.

The move appears to reflect personality difficulties between Mr Cabana and Mr Edouard Balladur, the Economy Minister, and Mr Alain Juppe, the Budget Minister.

The other main aspect of the cabinet change will be the appointment of a European Affairs Minister. Mr Chirac confirmed during a news conference on Monday that he intended to appoint such a minister attached to the Foreign Minister, Mr Jean Bernard Raimond.

The absence of a Minister for European affairs has long been seen as one of the main omissions in the Government when it was formed after the March 16 parliamentary elections. Mr Chirac had indicated for some time that the job would probably go to a member of the Centre des Democrates Sociaux (CDS) grouping in the centrist UDF coalition.

Mr Bernard Bosson, a CDS member and currently junior minister for local communities at the Interior Ministry, is expected to be given the portfolio. The CDS, which is close to Mr Raymond Barre, the former right-wing Prime Minister and Mr Chirac's main presidential rival on the right, had been keen to secure it.

The miner reshuffle is also likely to include the promotion of Mr Gerard Longuet to the rank of Minister of Post and Telecommunications attached to the Industry Ministry.

Genscher urges interim arms pacts

WEST GERMANY'S Foreign Minister, Mr Hans-Dietrich Genscher, yesterday urged the US and the Soviet Union to seek interim accords on medium-range and strategic missiles if full-scale agreement proved impossible, *Reuter reports from Moscow.*

Speaking after a three-day visit to Moscow, he said West Germany felt both superpowers had an interest in reaching an interim accord on medium-range weapons in Europe. "A policy of everything or nothing would be wrong. It would be better to have a partial solution."

They could take a similar approach to strategic missiles, looking for a 30 per cent reduction in both arsenals if a 50 per cent cut initially proved impossible to achieve.

Mr Mikhail Gorbachev last month unveiled an "intermediate" proposal on strategic weapons, which fell short of his previous call for an immediate 50 per cent cut. He also offered to deal separately with medium-range arms and implied acceptance of laboratory research into space weapons if both sides abided by the Anti-Ballistic Missile treaty for 15 more years.

Sticking points in negotiations on medium-range missiles include the Soviet Union's Asian-based SS-20 rockets and Western opposition to the Soviet view that British and French nuclear weapons must be taken into account in an accord.

Touching on chemical weapons, Mr Genscher said: "After years of negotiations, it became obvious that it was possible at Geneva to bring our positions considerably closer. One must not, so to speak, show fatigue, for developments could make us drift apart."

He was reluctant to predict when a deal could be struck, but Moscow's chief arms negotiator, Mr Viktor Karpov, has said a global ban on producing or stockpiling weapons could be reached by the end of this year.

Mr Genscher added that in the course of his talks in Moscow, agreements had been signed between West Germany and the Soviet Union on science and technology, agricultural co-operation and health research. It was also decided to establish consulates in Kiev and Munich.

He said there should be more frequent consultations between the West German and Soviet foreign ministers and disarmament experts from the two countries.

US-Soviet talks on Salt 2 open in Geneva

BY WILLIAM DULLFORCE IN GENEVA

US AND SOVIET arms control experts opened discussions yesterday on President Ronald Reagan's decision to repudiate the Salt 2 strategic arms limitation treaty. The Soviet side is seeking a compromise on the treaty before Mr Mikhail Gorbachev agrees to a second summit with Mr Reagan.

A sign that a compromise might be in the offing came in a US statement after yesterday's talks expressing the desire that the Soviet Union join in establishing "an interim framework of truly mutual restraint."

The US also came under pressure yesterday to negotiate a comprehensive nuclear test ban in another Geneva forum, the UN conference on disarmament, when Australia tabled a proposal for monitoring nuclear tests. The US and the Soviet Union are due to start separate talks on nuclear testing in Geneva at the end of this week.

The Salt talks, in the form of a special session of the US-Soviet Standing Consultative Commission (SCC), are being kept confidential. The two sides met twice yesterday and one expected to meet again today.

Moscow is looking in this and other joint talks for clarification of US intentions on nuclear disarmament. US officials argue that by responding to the Soviet request for a special session on Salt 2, Washington has sent one of several recent signals of its readiness to make progress on nuclear arms control.

They welcome the Geneva meeting as indicating a new willingness on the Soviet side to discuss compliance with arms control agreements. The US has claimed repeatedly that the Soviet Union has violated Salt 2.

Australia yesterday proposed that the UN disarmament conference decide at its current session to establish a global seismic network to monitor nuclear tests and provide a reliable verification system for a comprehensive nuclear test ban (CNTB).

Mr Richard Butler, the Australian ambassador, claimed that establishment of a computerised communications system to link more than 70 seismic monitoring stations and some upgrading of the stations would provide an effective verification service at no great cost.

The US maintains that it is not interested in a CNTB at this time. But it has also based its refusal to negotiate a ban on the lack of credible verification methods. The Soviet Union has been observing a year-long moratorium on nuclear tests that is due to expire on August 6.

Question mark over reform document

By David Buchan

SEVERAL WESTERN analysts said yesterday the manifesto calling for far-reaching political and economic changes in the Soviet system, reported in yesterday's Guardian newspaper, was probably a genuine document *from a hitherto unknown* reform group, the Movement for Socialist Renewal (MSR).

They did not believe, however, that the internal evidence of the document showed it had been penned "by a group of powerful officials with unusual access to Western sources and to privileged Soviet statistics," as the newspaper claimed.

Calls for breaking the Communist party monopoly on political power and the press, which figure prominently in the manifesto, were unlikely to come from within the Soviet elite, in the opinion of most Kremlinologists.

Similar reform programmes have been circulated clandestinely in recent years by small *"socialist reform" groups*, sometimes with links to the fringes of the Soviet establishment, but these groups have been suppressed by the authorities.

But the timing of the leak, apparently in both Russian and English versions, may be a significant indicator that Mr Mikhail Gorbachev generated greater expectations of radical change than he was able to meet in the relatively cautious programme which *emerged* from February's party congress.

It is thus hardly surprising that some frustrated reformers should now want to revive the reform debate, not least perhaps by leaking to the West a document they know will be bounced back into the Soviet Union by Western radio stations.

Indeed, it is these Western broadcasts that pose a problem for the Western analyst in judging how much of an "in" the author or authors of an anonymous samizdat tract has with the Soviet establishment. Just because something is not published in the official press does not necessarily mean it is not current knowledge among many Soviet officials, academics and intellectuals.

It is clear, however, that there is considerable internal political debate, particularly among groups pledging allegiance to Soviet and socialist ideals, that rarely *surfaces in the Western* media.

Two such bodies which came to Western notice in the early 1980s were the so-called Euro-Communist group, and the Revolutionary Social Democratic Group. Both are said by Western analysts to have advocated similar aims to the MSR, but both, with membership of less than a dozen, seem to have collapsed.

A couple of years ago a *swingeing critique of central* planning by the well-known Soviet sociologist, Tatiana Zaslavskaya, was leaked to the Western press. This indicated there was some debate within the higher echelons of the Soviet party

But the changes Ms Zaslavskaya called *for, some of* which the Government has put in train and others which figure uncontroversially in the MSR document, stop well short of the political, religious and press freedoms demanded by the MSR.

Subsidies for EEC shipyards outlined

By Paul Cheeseright in Brussels

PRODUCTION SUBSIDIES for the troubled European shipyards should not exceed a level which compensates for the difference in prices between the most competitive EEC yards and those in Korea and Japan, the European Commission *declared yesterday*.

It published guidelines on the level of subsidies to be paid to shipyards from next year. The aim is to enhance the competitiveness of an industry which has seen its share of world markets halved over the past decade to 14.2 per cent.

The European Community is seeking to devise a system of subsidy controls to replace regulations which expire at the *end of this year*. The latter permitted subsidies provided they were linked to restructuring of the shipyards, but they have been relatively loosely applied.

Industry ministers agreed last month that there should be a common maximum subsidy system and asked the Commission to *prepare* guidelines this month and precise proposals in October. Mr Peter Morrison, the British minister, said at the time that resolving the issue would be a priority of the British EEC presidency.

The Commission approach is to split the nature of subsidies into two.

On the question of production subsidies, it has adopted the method of using the most competitive European yards as a benchmark for assessing price differentials with Far Eastern yards, both to limit the extent of subsidies and to make certain they are useful only to the efficient.

Its definition of subsidies includes both direct and indirect payments. The Commission has been building up an inventory of subsidies in an effort to stop payments slipping through the net. There are wide divergences in approach — in the UK there are cash payments to yards but, in West Germany, subsidy often comes in the form of tax concessions or orders tied to overseas aid programmes.

The Commission also deals with restructuring subsidies. It suggests that they may be paid for yar dclosures and the reduction of capacity on one hand *and for innovation on the other*. But where money goes into technical development, it proposes that there should be no further increase in capacity.

The new regulations, once agreed, would run for five years, but they would not apply initially to Spain and Portugal.

● EEC budget ministers ended their meeting in Brussels last night without agreement on a preliminary draft budget for 1987. *They will* resume their deliberations on September 8, writes Tim Dickson.

Various compromises were *discussed during* the day but Mr Peter Brooke, British president of the Budget Council, was unable to find a majority for any of them.

Member states divided into two main camps—those states such as Britain, France and Germany who wish to create a *bigger* "reserve" within the 1.4 per cent VAT resources limit than that implied by the Commission's preliminary draft figure of Ecu 36.754bn, and the Mediterranean countries which are keen for more spending on the regional and social funds.

Commission plan provides boost for small airlines

BY PAUL CHEESERIGHT IN BRUSSELS

SMALL airlines flying between *regional* centres throughout the European Community will have greater freedom of operation if Commission proposals, published yesterday, are accepted by ministers of the Twelve.

The Commission proposals are the last in a package designed to bring about liberalisation in *the Community* aviation industry, but they fall short of the policy aims adopted by the lobby of nations pressing for greater freedom of the air.

On the basis of experience gained earlier in the decade when ministers held lengthy negotiations on changing the *regulations* for inter-regional services, the new proposals will nonetheless be difficult to negotiate.

The proposals build *on this* earlier accord, reached in 1983. Since then 14 new services between regional airports have been approved, according to a Commission report last month.

The Commission is now suggesting that:

● services should be permitted *which link a regional* airport to a main national airport;

● the restriction on having a minimum route distance of 400 km should be *eliminated*;

● regional carriers should be permitted to extend their services beyond two countries.

These proposals will be welcomed by countries like the UK, Netherlands and Ireland, which are in favour of air liberalisation but they are limited in *their effect*. Such countries have seen route access as essential for liberalisation, but the route access they have been most concerned about is between the major airports. This is an issue the Commission has not been prepared to address.

The regional *air services* question will now enter the wider argument among the Twelve about air liberalisation, a topic which the British *Government will* be pressing hard during its current six months presidency of the Community.

But the failure to bridge wide divisions among the Twelve at the political level has led the Commission to start the legal process of bringing the airlines *into* the ambit of the competition rules of the Community, in accordance with a recent Court of Justice ruling.

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EUROPEAN NEWS

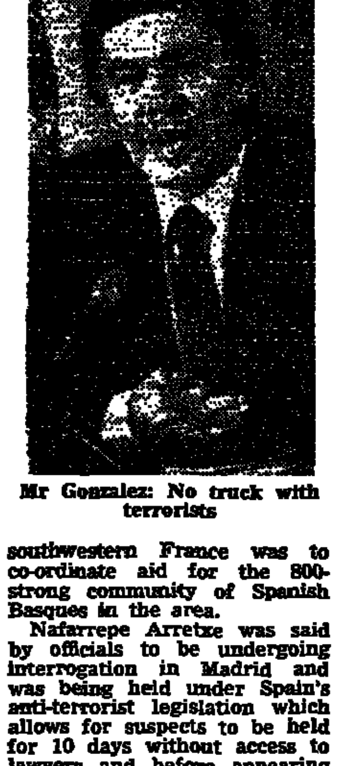
France hands another Eta suspect to Spain

BY TOM BURNS IN MADRID

A MEMBER of a committee for Spanish Basque refugees in southwestern France who is suspected of playing a leading role in the separatist organisation Eta was summarily turned over by the French police to their Spanish counterparts yesterday.

It was the second such handover in three days and underlined the increased French co-operation over the separatist issue in the wake of the escalation of Eta violence in Madrid.

Earlier in the day Mr Felipe Gonzalez, the Prime Minister, said in a television interview that he had written a personal letter to his French opposite number, Mr Jacques Chirac, thanking him for the moves taken against Eta. Mr Gonzalez said the present French co-operation represented a "qualitative leap forward" compared with what had existed in the past.


Mr Gonzalez: No truck with terrorists

The man handed over yesterday to Spanish police at the frontier town of Hendaye was named as Juan Nafarrepe Arretxe. According to police in Spain and in France he is believed to be a senior member of Eta and is accused of being closely linked to recent violence by the separatist movement.

Basque radical groups, which have been demonstrating in San Sebastian and other towns of the Basque country in protest at the French moves, said that Nafarrepe Arretxe's role in southwestern France was to co-ordinate aid for the 800-strong community of Spanish Basques in the area.

Nafarrepe Arretxe was said by officials to be undergoing interrogation in Madrid and was being held under Spain's anti-terrorist legislation which allows for suspects to be held for 10 days without access to lawyers and before appearing before a judge. Also being held in Madrid under the anti-terrorist law is Jose Manuel Varona Lopez who was handed over by the French police at the weekend.

It is thought likely by Basque radicals that several other direct expulsions to Spain of members of the refugee community in south-western France will follow in the coming days.

A feature of the hand-overs is that they are not preceded by formal extradition petitions by the Spanish authorities. Neither Varona Lopez nor Nafarrepe Arretxe appeared before a French magistrate before being escorted to the frontier.

Mr Gonzalez in his television interview ruled out any suggestion that the Government was willing to negotiate a ceasefire with Eta. "If what Eta wants is to negotiate, it may as well lose all hope. This Government will not give in to terrorist blackmail," he said.

The Prime Minister was expected to repeat his tough line against terrorism in an investiture debate that was due to start yesterday evening. "You can be certain," he said in the interview, "that we are going to finish with terrorism and that we are certainly going to finish with the commando that is operating in Madrid."

Eta was responsible for a grenade attack on the Defence Ministry in Madrid on Monday and for a car bomb explosion in the capital a week earlier which killed 10 policemen.

Spanish fishing vessel attacked

BY OUR MADRID CORRESPONDENT

The Western Sahara independence movement, the Polisario Front, is suspected of carrying out an attack yesterday on a Spanish trawler in which one seaman was killed, and of later firing on a Soviet factory ship.

The Vigo-based trawler "Andes" came under machine-gun and rocket fire from a rubber dinghy powered by an outboard motor when it was 11 miles off the Western Sahara coast. One crew member was killed and 15 others were rescued by fellow Spanish fishing vessels shortly before the trawler caught fire.

Hours later, as dawn was approaching, the factory ship Tito Uncriak which was also in the vicinity was likewise attacked by a unidentified rubber launch. The Soviet vessel returned fire and at least three attackers were wounded, according to reports broadcast by the Spanish fishing fleet's shortwave radio network.

The incidents bore the hallmarks of the Polisario Front which has been waging an intermittent guerrilla war with Moroccan troops in the Western Sahara for more than a decade.

Concern over historic German site

Monumental ambition sparks unseemly row

BY PETER BRUCE, RECENTLY IN MUNICH

BAVARIAN Government plans to build a DM 200m (£64m) State Chancellery for Mr Franz Josef Strauss, the Bavarian Premier, around an historic site in the centre of Munich are fuelling a bitter row with the left-wing majority on the Munich City Council.

The Social Democrat (SPD)-led Council has just lost a first attempt to have the plans set aside in the courts and, Mr Wolfgang Czisch, the SPD's planning spokesman says it expects to lose a second legal battle. The party has collected 35,000 signatures in Munich supporting its campaign to stop the building going ahead.

Signatures

Mr Strauss's party, the Christian Social Union (CSU), claimed however that the signatures had been collected from all over Bavaria. "It's not very impressive," said Mr Wolfgang Held, deputy general secretary of the CSU. Digging at the site began early this week.

Mr Strauss's Chancellery will rise from one end of the historic Hofgarten, a restful, slightly forlorn Renaissance garden in the heart of Munich. The Hofgarten is bounded on the south side by the 500-year-old Residenz, now home to the Bayerische Staatsoper and in the east by the domed centrepiece of the old Army Museum, built at the turn of the century and bombed by the Allies in 1945.

In the museum ruins the CSU wants to erect a fitting architectural tribute to Mr Strauss, which would also be a building of real elegance for the state executive of Bavaria. The CSU has dominated state politics since shortly after the Second World War.

The winning design in an architectural competition last year had the new Chancellery extending in two wings from the remodelled ruins and with a further two wings extending from these. The building, notes Mr Czisch, "is about 10 times bigger than the White House." But then, Mr Strauss's political interests extend far beyond the mundane court of an everyday provincial premier in West Germany.

Last year's competition was the latest in a saga which extends back almost 20 years. In the late 1970s, Mr Strauss is said to have rejected a modern design, placing the Chancellery in the somewhat more obscure Finanzgarten just north of the ruined museum.

In 1983 the Munich council, then controlled by the CSU, agreed unanimously to allow the Government to build a Chancellery on the site. The SPD admits that by voting with the CSU then, they may have seriously damaged their position now.

Complaint

But Mr Czisch complains that they had no idea then that the Chancellery would be so big. He also says that some important archeological finds, including Renaissance pump houses, murals and reflecting pools, have been made recently beneath the museum ruins.

There is space for a Chancellery next to the Residenz on a site overlooking the Hofgarten, he adds. But the Government is determined not to give up. "Besides," says the CSU's Mr Held, "the dome is already there."

Builders are already at work inside the old ruin, where you can just make out in the gloom the sweeping staircase Mr Strauss may soon be able to ascend each day.

Albania's growth falls short

By Leslie Colitt in Berlin

ALBANIA FAILED by a wide mark to meet its ambitious economic growth targets in the last five-year plan to 1985. The rise in national income (roughly equivalent to GNP) was 16 per cent higher than in 1980 although the target was nearly twice as high.

The tiny Balkan Communist nation, which broke with Moscow and Peking, is cautiously emerging from isolation and is improving its political and trade relations with Western countries.

An economic report in the official newspaper Bashkimi, said industrial production rose by 26 per cent in the five years although output in "some sectors," including oil and gas, fell well short of the goals.

The same was true for agricultural production which grew by 13 per cent and thus "negatively influenced" the country's rate of development and supplies to the population. Industry makes up 60 per cent of the Albanian economy and agriculture the remainder.

The newspaper said the target for national income growth in the five-year plan to 1990 was 34-36 per cent. Industry was to grow by 29-31 per cent, and labour productivity by 8-10 per cent. Real income per capita was to grow by 7-9 per cent.

Foreign trade, estimated to be less than $900m a year, was scheduled to expand by 33-35 per cent by 1990, with exports growing by up to 45 per cent. Measures were to be taken to reduce imports and replace them with domestic products.

Albania's imports are largely financed by exports of chrome ore (it is the world's second largest exporter after South Africa). Those were to be expanded by 35 per cent, said the report. Nickel ore production was to grow by 29 per cent.

The Albanian leadership has been sharply critical of conditions in the oil sector and expansion is to be achieved by secondary recovery methods as well as new technology and an extension of fields.

Sweden's trade surplus soars

BY SARA WEBB IN STOCKHOLM

SWEDEN'S BALANCE of trade last month showed a record surplus of SKr 4.9bn (£466m) up SKr 1.1bn on a year ago. The value of exports rose by 3 per cent to SKr 24.3bn while that of imports fell by 2 per cent to SKr 19.4bn.

The total surplus for the first six months was SKr 19bn, an increase of SKr 13bn on the same period of 1985. The value of exports rose by 3 per cent to SKr 134.4bn, while the value of imports fell by 7 per cent to SKr 115.4bn.

The central statistics office said that high ship exports worth SKr 1.1bn and low oil prices contributed to June's record result. According to their estimates, just over half the surplus is due to lower oil prices this year.

Excluding oil and ships, the value of exports has risen by 5 per cent, while corresponding imports have risen by 1 per cent in the first six months. The volume of trade excluding oil and ships is estimated to have risen by 3-4 per cent, while corresponding imports remain unchanged.

The reasonable demand for exports and largely unchanged domestic demand have led to an increase in industrial activity in the first half, according to a report from the National Institute of Economic Research.

There has been an increase in the flow of orders and volume of output. Production plans for the second half of the year are more expansive than originally indicated in March, probably because of optimism about exports.

The institute predicts higher output for pulp and paper, the chemical industry and parts of the engineering industry. However, many companies in electrical engineering and the shipyards expect a decline in production.

OVERSEAS NEWS

FT writers look at the S. African situation on the eve of Sir Geoffrey's visit

Howe likely to find little comfort

BY BERNARD SIMON IN JOHANNESBURG

SIR GEOFFREY HOWE, the British Foreign Secretary, is likely to find great admiration for Britain but little else of comfort when he arrives in Pretoria today on his European Community mission to bring about meaningful political dialogue between blacks and whites in South Africa.

Sir Geoffrey will meet Mr Pik Botha, the South African Foreign Minister, and later President P. W. Botha. He will be trying to secure the release of imprisoned black leader Nelson Mandela, the unbanning of the African National Congress and other black political groups, and the start of constitutional talks between blacks and whites.

He is due to return to Pretoria next week after talks which he hopes to hold with black leaders both inside and outside the country. Most of those he wants to see, including Mr Mandela, have so far, however, given him the cold shoulder.

In one sense the South Africans are likely to give the EEC mission a warm welcome. President Botha's decision to see Sir Geoffrey after initially rebuffing his approach is probably an acknowledgement of Mrs Margaret Thatcher's determined stand against tougher economic sanctions against Pretoria.

As a senior member of the Thatcher Government, the Foreign Secretary is a symbol to white South Africa of Britain's almost lone fight in the past few months against the imposition of sanctions. Besides being on the same side of the sanctions issue as Mrs Thatcher, Afrikaners have a strong affinity for anyone prepared to stand up and fight for an unpopular cause.

The pro-Government newspaper Beeld published a cartoon yesterday showing Mrs Thatcher pointing her finger at a group of yapping dogs representing various black African states boycotting the Commonwealth games. Her comment is: "Don't worry. Their bark is worse than their bite." Mr Botha's view is undoubtedly the same.

Bearing in mind Britain's position as the biggest foreign investor in South Africa and one of its leading trading partners, Sir Geoffrey may thus be in a unique position to influence President Botha.

The South Africans have given no clue so far on what they are prepared to offer Sir Geoffrey in return for Mrs Thatcher's stand on sanctions. According to one British diplomat, "It's a matter of guesswork." He added, however, that "One can't be too hopeful."

If anything, however, there has been a hardening of opinion in Pretoria over the past month or two towards making concessions to foreign opinion.

The seemingly unstoppable pace of the sanctions bandwagon overseas and a sense of frustration that South Africa has not been given the credit it feels it deserves for recent political reforms (like abolition of the pass laws) appear to have persuaded President Botha that he has little to lose by standing his ground.

Furthermore, the fiasco over the Commonwealth Games has probably strengthened Pretoria's view that disunity among its adversaries—whether in the Commonwealth, the EEC or the United Nations—give it a good deal of breathing space.

The boycott of the Games has been greeted with almost undisguised glee by Government supporters. The pro-Government newspaper the Citizen suggested yesterday that Britons should "just let the Commonwealth fold its tents and disappear."

Mr Botha is expected to outline his own blueprint for political change at an important congress of the National Party in Durban on August 12. While he may propose relaxations in laws enforcing residential segregation and separate public amenities, his plan is widely expected to fall short of the EEC's call for meaningful negotiations leading to what Sir Geoffrey has called a "non-racial fully representative society."

The Government's present priority is to break the back of black opposition and restore law and order to the rebellious black townships. As the state-controlled radio commentary which usually reflects Government thinking, put it last week: "Few would dispute that putting an end to organised political violence is the most compelling task with which South Africa is now faced."

That was the message—rather than any new push on political reforms—which Mr Botha had for Nobel Peace prizewinner Bishop Desmond Tutu when the two men met earlier this week. It is one which is likely to be repeated to Sir Geoffrey. Mr Botha's response to the EEC call for more fundamental change may also include a demand that the West give greater recognition to reforms already implemented.


Sir Geoffrey Howe (above) and Mr P. W. Botha

Sir Geoffrey said in the course of meetings with the leaders of black frontline states that "we should give credit" to the South Africans. But his message to Mr Botha is likely to be, in his own words, that "the changes must be faster and more far-reaching if tragedy is to be averted."

Judging by the present mood in Pretoria, Mr Botha's argument will be just the opposite—that the faster the changes, the greater the chance of tragedy.

Mines prepare for sanctions

BY JIM JONES IN JOHANNESBURG

SOUTH AFRICA'S colliery owners have made contingency plans for the early sackings of as many as one-third of their employees if sanctions affect the country's coal exports.

In Johannesburg yesterday, the Chamber of Mines said about 35 per cent of the coal mining industry's 111,000 jobs could be jeopardised if exports were affected by a successful call for sanctions in the European Parliament and if Far Eastern customers folowed suit.

The announcement seems designed both to deflect sanctions and to attack the black National Union of Mineworkers (NUM) which claims to represent about two-fifths of the gold and coal industries' 550,000 black employees and which is currently in dispute with the chamber over wages.

The chamber finds it—"inexplicable"—that Mr Cyril Ramaphosa, the NUM's general secretary, should have allegedly called for sanctions at a recent British Miners' conference in Wales "in view of the fact that," the chamber says, "the effect of sanctions would mostly affect the members of his union."

Mr Ramaphosa replies that the chamber itself is failing to address what he says are the real issues, that the conditions of black miners and apartheid itself have infuriated people abroad and led to their calls for sanctions.

He added that redundancies would lead to confrontation between the NUM and the chamber. Black redundancies are, in any event, becoming a factor in the mining industry.

A week ago, for example, Mr Ken Maxwell, chairman of the Randfontein Estates and Western Areas gold mines, estimated that mechanisation would cut employment by about two-fifths at his mines over the next few years.

South Africa's coal exports have been under pressure for several months, largely because of the world's oil glut

New Nakasone team will need to bolster economy

BY IAN RODGER IN TOKYO

THE NEW Cabinet presented by Mr Yasuhiro Nakasone, Japan's Prime Minister, yesterday seems well designed for the short but very active life it will have.

Last week, Mr Nakasone won the endorsement of Liberal Democratic Party leaders for an extension of his second term, perhaps until after next spring's Diet session, but probably no longer.

His main tasks in the months ahead will be to bolster an economy that has faltered because of the strength of the yen and to fend off increasingly aggressive demands from the US and the European Community that Japan becomes a more open and fairer trading partner.

At home, Mr Nakasone wants in the next few months to privatise the national railways, increase the role of indirect taxes in Government revenue, and start to reform the country's rigid educational system.

The economic direction of the Cabinet was made clear on Monday with the announcement that Mr Kiichi Miyazawa, formerly chairman of the LDP Executive Council, would be the new Finance Minister.

Mr Miyazawa is known to favour a more expansionist economic policy than his predecessor, and this is likely to be reflected in the supplementary budget to be presented at the extraordinary session of the Diet planned for September.

The Foreign Ministry, vacated after four years by Mr Shintaro Abe who has taken a leading party post, will be led by Mr Tadashi Kuranari, a member of the Nakasone faction with a background in economics.

This appointment may signal that the Prime Minister himself intends to play a bigger role in foreign policy matters, especially in the trade disputes with the US and the European Community.

Another veteran parliamentarian, Mr Hajime Tamura, becomes Minister of International Trade and Industry (Miti). He takes over from the independent-minded and often outspoken Mr Michio Watanabe who is not in the new Cabinet.

○ The new Cabinet: **Prime Minister**, Yasuhiro Nakasone, 68; **Vice Prime Minister**, Shin Kanemaru, 71; **Justice**, Kaname Endo, 70; **Foreign**, Tadashi Kuranari, 67; **Finance**, Kiichi Miyazawa, 66; **Education**, Masayuki Fujio, 69; **Health and Welfare**, Juro Saito, 46; **Agriculture, Forestry and Fisheries**, Mutsuki Kato, 60; **International Trade and Industry**, Hajime Tamura, 62; **Transport**, Ryutaro Hashimoto, 48; **Posts and Telecommunications**, Shunjiro Karasawa, 56; **Labour**, Takushi Hirai, 54; **Construction**, Kosei Amano, 79; **Home Affairs**, Nobuyuki Hanashi, 57; **Chief Cabinet Secretary**, Masaharu Gotoda, 71.

Directors-general of government agencies: **Management and Co-ordination**, Kazuo Tamaki, 63; **Defence**, Yuko Kuribara, 66; **Economic Planning**, Tetsuo Kondo, 56; **Science and Technology**, Yataro Mitsubayashi, 67; **Environment**, Toshiyuki Inamura, 50; **National Land**, Tamisuke Watanuki, 59.

Steel industry cuts prices

BY IAN RODGER

JAPAN'S depressed steel industry has bowed to pressure from the motor industry to cut its prices because of lower raw material costs.

Steel industry officials say Nippon Steel, the world's largest steelmaker, has agreed to cut its cold rolled sheet prices to Toyota Motor by 2 per cent or Y2,000 a tonne, effective immediately.

Other producers are expected to follow with *similar* cuts. A spokesman for Kawasaki Steel, the second-largest supplier of cold rolled sheet to the motor industry, said wryly: "The champion steelmaker and the champion car company have decided. Others will now proceed."

The motor companies' steel price offensive has been based on the decline in steelmakers' imported ore and coal costs this year. The volume of iron ore imports in June, for example, was 5.2 per cent lower *than in June 1985 but* the value of these imports was down 36.6 per cent.

Yesterday's historic Rabat meeting has implications not only for Israel but for the entire Middle East

Morocco treads the Arab tightrope

BY ROGER MATTHEWS, MIDDLE EAST EDITOR

THE IMMEDIATE prospects for Middle East peace are scarcely brighter today than they were 36 hours ago when Mr Shimon Peres, Israel's Prime Minister, set out for Morocco.

King Hassan, influential catalyst though he may be, does not lead a front-line Arab state bordering on Israel and would not be expected to contribute significantly towards the shape of a settlement to the Palestinian issue.

His importance historically, and for the future, is in the bridge that he can help to throw across that chasm that throughout much of the Middle East has in the past 40 years separated Arabs and Jews.

It was King Hassan who acted as the intermediary in the initial contacts between Egypt and Israel that allowed President Sadat to make his historic announcement in November 1977 that he was willing to visit Jerusalem if that would help bring peace to the Middle East.

Morocco demonstrates more than any other Middle Eastern country that Jews and Arabs can live in relatively harmonious proximity despite the periodic crises from which the region suffers.

However, in the short to medium term, King Hassan's decision to welcome Mr Peres publicly can but deepen Arab schisms while reducing Morocco's capacity to act as a conciliator.

King Hassan was host to the 1982 Arab summit meeting which, through its Fez declaration, indicated for the first time a qualified Arab willingness to accept Israel's right to exist in the region.

Since then, King Hassan has sought, together with other Western-oriented Arab leaders, to build on that foundation and to heal the range of inter-Arab conflicts which have rendered increasingly impotent the once powerful Arab League.

Senior aides to King Hassan have in the past months become deeply pessimistic about their chances of achieving even minimal success. The hostility between Mr Yassir Arafat, chairman of the Palestine Liberation Organisation, and the governments of Jordan and Syria, has wrecked the only viable peace process.

Efforts to reconcile Syria and Iraq have for the time being failed. Egypt remains of the margin on Arab affairs and is anyway beset by a grave economic crisis.

In common with other regional heads of state, King Hassan appears now to have decided that pan-Arabism is dead. As the impact of the oil price collapse threatens increased political pressures in many countries, each government is looking primarily to its own survival.

King Hassan will shed few tears over Syria's decision to break diplomatic relations and will be equally happy to be rid of the internationally embarrassing Libyan connection.

In the West, and particularly in the US from whom he hopes for additional economic and military assistance, King Hassan will enjoy a diplomatic bonus as a latter-day Anwar Sadat.

Morocco now joins Egypt as the only Arab states to have received an Israeli Prime Minister, a development which will be warmly noted in a Washington currently ill-disposed to the Arab world and simultaneously anxious to sustain Mr Peres.

The prospect of Mr Peres handing the premiership to Mr Yitzak Shamir in October is not a prospect which pleases either those Arab countries keen on a negotiated settlement to the Palestinian issue or to those, such as the US, which wish to foster a better image for Israel in the international community.

It may, of course, be argued that by making public contact with another Arab state, Israel will slowly come to accept that—as in the case of Egypt—it is possible to establish relations with neighbouring countries which, if not particularly warm, are nonetheless viable.

This will, it is hoped, fuel debate within Israel on the central issue of whether, ever, it will be willing to withdraw from the land it has occupied since 1967.

The disarray within the Arab world has allowed Israel to claim, fairly, that there is no one willing to come forward to test its intentions.

King Hassan may yesterday have been attempting that exercise, but there is still no evidence of an Israeli acceptance of the Palestinian right to self-determination, or that the PLO and the Arab countries will agree to talk about anything less.

King Hassan builds a second bridge

BY FRANCIS CHILES

KING HASSAN's decision to invite Mr Shimon Peres to Ifrane has angered several Arab states, but it came as no surprise to those in the kingdom who value their monarch's role as a bridge builder in the Arab-Israel conflict.

Nor should it surprise anyone acquainted with Moroccan history. To this day many leading families from the old imperial capital of Fez remain proud of their Jewish origins.

The Moroccan *Jewish* community has for many centuries played an important role in the political, economic and cultural life of the country. To this day, King Hassan's eldest son, Sidi Mohammed, pays a visit to the Rabat synagogue on the eve of the Yom Kippur religious festival.

The protection traditionally afforded to the King's Jewish subjects was upheld during the Second World War when Sultan Mohammed V, King Hassan's father, told the French Governor-General that he would never allow the Vichy colonial authorities to force the Jews to wear the yellow Star of David but provide census lists.

Mr Peres' visit is not the first by representatives of the Jewish state: just over two years ago an Israeli delegation which included an 11-member all-party delegation from the Knesset, joined many other prominent international Jewish figures for a conference of Morocco's Jewish community.

The Jewish community has today dwindled from 300,000, when Morocco became independent in 1957, to around 10,000, but many of its members still play a prominent role. The head of the community, Mr David Amar, once an illiterate young man from the small town of Kareshid now runs Omnium Nord Africain, one of the kingdom's largest companies, which he jointly owns with the monarch.

Mr Amar, like other Moroccan Jews who are now prominent in business in France, Canada and the US has played a wider role. He has been dispatched to the US to lobby among Jewish congressmen and other groups to try to reduce Jewish opposition to US arms sales to some Arab countries.

By receiving Mr Peres King Hassan hopes that Col Gadaffi the Libyan leader, will break the treaty of Oujda, signed between Tripoli and Raba in August 1984, which remains an embarrassment to the monarch.

Although the treaty did not lead to any break with the US it did anger President Reagan, who since then has refused to receive King Hassan in Washington. US support is also important in Morocco's difficult negotiations with the International Monetary Fund

In the run-up to the Camp David agreement between Egypt and Israel King Hassan was shrewd enough to appreciate that the time was ripe to bring the two sides closer. As a descendant of the tProphe Mohammed his claim to legitimacy in Muslim eyes, is *unimpeachable. Time will tell* whether the monarch's shrewdness is vindicated again.

Talks could alter peace process calculations

BY ANDREW WHITLEY IN JERUSALEM

MR Shimon Peres, the Israeli Prime Minister, is a wily and experienced politician fully aware of the impact that a dramatic gesture can have on what may appear to be a hopeless situation.

With less than three months to go before the Labour Party leader is due to hand over power to Mr Yitzhak Shamir of the Likud under their power-sharing arrangement, until this week the prospect of a breakthrough in the Middle East peace process had seemed to be approaching vanishing point.

The dramatic secrecy-shrouded trip Mr Peres has made to Morocco to meet King Hassan II just may change this calculation.

At the very least, as Israeli politicians and commentators were saying yesterday, the public meetings between the two men have broken the ice, making it more acceptable for *other moderate Arab leaders*, for example, King Hussein of Jordan and Egypt's President Hosni Mubarak — to cast off their own inhibitions.

The assumption in Jerusalem is that Mr Peres cannot have been as unwise as to have travelled to Rabat empty-handed. This would be an enormous waste of political capital, apart from souring the chances of any future such initiative.

But what exactly the Israeli leader can offer at this stage of his tenure in office other than visibly shop-worn wares such as greater local autonomy in the occupied territories and improving the regions "quality of life" is keeping everyone guessing

One possibility is a revival in an enhanced form of the so-called Gaza "first option," under which the narrow, overcrowded coastal strip of territory could be granted self-rule in all aspects except foreign affairs and security.

Unlike the Likud, under *whom the gloomy expectation* had been one of speeded-up *de facto* annexation of the occupied territories, the Labour alignment's political manifesto includes a stated willingness to consider territorial compromise as part of a peace settlement.

Mr Shimon Peres

But what is theoretically possible and what are practical politics in contemporary Israel are two very different matters.

In the finely-balanced Israeli coalition government it has been hard recently for the Prime Minister to get agreement on even such apparently innocuous matters as the introduction of summer time.

The assumption here is, therefore, that if the talks with King Hassan show any signs of bearing fruit—in terms of hard decisions Israel may have to face in the near future over peace negotiations or territorial compromise—Mr Peres will seize the opportunity to go to the polls.

Buoyed by consistently high opinion poll ratings, the Labour leader would be confident of obtaining a fresh mandate for a new Labour-led government, *ending the negativism* and stalemate which have dogged Israeli politics

Peter Montagnon and **Stewart Fleming** look at the significance of Mexico's latest deal with the International Monetary Fund

Mexico back at the bankers' doors

THE COMPLETION yesterday of Mexico's protracted negotiations with the International Monetary Fund signals the start of an all-out campaign by the Government of President Miguel de la Madrid to rebuild the support and confidence of the international banking community.

Commercial banks will be expected to put up the bulk of the external finance Mexico will need to close its trade deficit gap during the next two years. Officials in Washington say the amount required from them is between $5bn and $7bn.

Though this is little more than twice the amount bankers had originally pencilled in for 1986 alone, it is still a large sum to raise in one go. Whatever they are told by the IMF and the US Treasury, leading creditors say they will want to verify independently that Mexico does need such large financial support, and they may still try to whittle down the amount in negotiation.

As an opening shot, Mr Gustavo Petricioli, Mexico's Finance Minister, is due to meet senior representatives of about 50 big banks in New York this evening. Tomorrow there will be an initial round of negotiations with the 13-bank advisory committee of leading creditors which has spearheaded the country's past debt negotiations.

Senior bankers said they have no illusions about how difficult it will be to raise additional finance for Mexico against the backdrop of a plunging oil price, the country's past failure to live up to its IMF economic policy agreement and worries that within two years the administration is due to change as President de la Madrid's mandate expires.

> Large creditor banks believe assurances on Mexico's economic policy are more important than the actual amount of money they will have to put up

Yet one comfort is that Mexico has apparently backed away from its threat to insist on below market interest rates for servicing its $98bn (£65.4bn) foreign debts. Such a policy could have undermined negotiations even before they started.

Three main conditions need to be met before Mexico can expect to approach the banking community for fresh loans, the bankers said.

First, they will need cast-iron assurances that it is serious about reducing its budget deficit, now running at about 13 per cent of gross domestic product; second, they must be convinced that adequate steps have been taken to deter Mexico's chronic capital flight; and third, they need to be sure the Mexican administration is serious about long-term structural reform.

Such assurances will be doubly necessary if, as expected, the IMF agreement turns out to be less rigorous than those it has applied to Mexico in the past. In its long negotiations with the IMF, Mexico has insisted on a programme that will allow growth to resume at a rate of about 3 per cent next year and will take account of the severe traumas inflicted on its economy by the fall in oil prices.

Large creditor banks believe assurances on Mexico's economic policy are more important than the actual amount of money they will have to put up. Unless lenders are convinced about the country's commitment to economic adjustment, no money will be available at all from commercial banks. If they are convinced, they say it does not matter too much that the amounts being sought are more than originally expected.

Nonetheless the process of syndicating such a large loan will tax the ingenuity of the senior bankers, especialy since it seems likely to be accompanied by some easing of the terms attached to Mexico's existing debt rescheduling agrements.

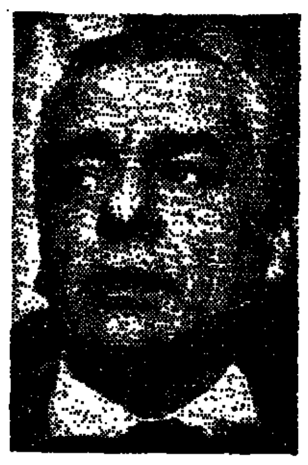
Mexico's large requirement is likely once again to raise questions about the willingness of smaller lenders to contribute fresh money. Many of them—especially regional banks in the US and central and southern European institutions—have resisted such operations in the past.

Moreover, bankers say they remain suspicious about a proposal that the amount of money they lend should be tied to the oil price. They are worried that this would give Mexico a chance to demand more money from them at some future stage or seek further deferment of debt falling due.

All this suggests that some radically new mechanisms may be needed to get the new financing package off the ground, probably with greater emphasis on co-financing schemes with the World Bank and parallel financing with western government creditors, they say.

What finally comes out of the negotiating sessions is sure to set the tone for future rescue operations under the so-called Baker Plan for easing the debt crisis.

Already this package looks like modifying the plan to mobilise larger amounts of cash than hitherto expected. Bankers say that while they talk to Mexico they will also be looking to see how far governments are willing to share the burden of support—and worrying that a specific concession to Mexico might trap them into similar deals with a whole range of other countries also wrestling with the impact of low commodity prices.



Gustavo Petricioli — due to meet bankers tonight

US politics play their part

IT IS hard to gauge the impact that domestic US political considerations have had on the significant modifications of the debt strategy emerging in the guise of a new lending package for Mexico.

But given the prominent roles Mr James Baker, the US Treasury Secretary, and Mr Paul Volcker, the chairman of the Federal Reserve Board, are playing and the criticism of the current approach from both left and right, political calculations seem to have played a not inconsiderable part.

Last month Senator Bill Bradley, an influential Democrat, launched a debt plan which challenged some of the main assumptions of the Baker Plan, which was unveiled in Seoul, South Korea, last year.

Earlier this week Mrs Jeane Kirkpatrick, the arch foreign policy conservative who was President Reagan's ambassador to the United Nations until early last year, published a thinly-veiled attack on Mr Baker's debt programme saying: "By now the Baker Plan has enjoyed so little success that, according to Washington gossip, Baker is quietly seeking to get his name dropped from the proposal."

"Mexico, of course, was always likely to be something of a special case, given its strategic significance to the US.

But it may be less special than it appears. The new Mexican lending package involves both significant modifications in the traditional economic austerity package of the International Monetary Fund and a call for the commercial banks to provide more generous finance for a more growth - orientated Mexican economic programme.

Some senior government officials in Washington do not seem too concerned about the possibility that these changes will be seized upon as precedents by other heavily-indebted developing countries, such as Argentina, when they open their next round of negotiations with the IMF and the banks.

It is, of course, quite easy to make the case for a more flexible approach to Mexico's economic problem. The oil shock has had a severe impact on its economy, and it has already endured stringent austerity.

The risk to the financial system if so large a debtor as Mexico declared even a partial *de facto* moratorium on its interest payments is of special concern to Mr Volcker. As Mr William Cline of the Institute for International Economics in Washington put it yesterday, the increased flexibility for Mexico reflected "a recognition that if the rules were too rigid the system might break."

The Reagan Administration is increasingly concerned about the adverse impact which austerity and recession in Latin America are having on a US trade deficit which stubbornly refuses to improve and which is retarding the performance of the economy. The US trade deficit with Latin America was $6.5bn in 1982 but $21bn in 1985. Increasingly on Capitol Hill, the White House's critics argue that the current debt strategy is helping the banks but harming US agriculture and industry.

With the mid-term elections approaching, a Mexican debt crisis was the last thing the Reagan Administration needed. It would also have been a major blow to the Baker Plan for resolving the debt crisis and therefore to the prestige of Mr Baker and, indirectly, to that of his close political friend and prospective presidential candidate, Vice President George Bush.

If the Mexican package can successfully be put together and the daunting task of getting the commercial banks on board accomplished, Mr Baker will be able instead to present the Mexican situation as an example of his plan for growth-orientated adjustment in action. The question will then be whether the action will produce the right results.

US intensifies efforts to help farm bank sector

BY NANCY DUNNE IN WASHINGTON

THE US Department of Agriculture (USDA), farm lenders and some members of Congress are intensifying efforts to create a secondary market for government-guaranteed private sector loans aimed at expanding the funds available for the ailing farm bank sector.

Bankers and USDA officials met recently to hear a presentation by officials of the Government National Mortgage Association (Ginnie Mae), the secondary market facilitator for government-guaranteed loans for housing and war veterans. The proposed farm loan market may be designed to resemble the highly-successful Ginnie Mae operation.

The loans to be packaged by commercial banks will be backed by guarantees offered by the Farmers Home Administration (FHA). The FHA, traditionally the lender of last resort for farmers unable to get commercial credit, is phasing out its direct loan programme and moving into guarantees for commercial credit.

Several members of Congress have introduced bills to formalise the secondary market. One of them, Congressman Cooper Evans, an Iowa Republican, has been working to build support for the scheme, but acknowledges that chances of Congressional approval this year "are close to zero." Still, he says, the Administration likes the idea because it could add liquidity to the farm credit system, and there are various devices the Administration can use to put a market into operation without Congressional approval.

"The one reservation the Treasury has is all these loan guarantees," he said.

Under the original budget for the 1986 financial year, Congress authorised the FHA to make $2.2bn (£1.5bn) in direct new loans and give $1.6bn in guarantees, but subsequent legislation ordered the phasing out of direct lending, starting in this fiscal year. The FHA has almost $23bn in total loans out to individual farmers and rural communities.

More than $7.5bn of the debt is considered "overdue" and much of that has been rescheduled.

The FHA, under congressional prodding, is also working on a plan to sell off much of its direct loan portfolio.

USX begins plant closures

USX, the leading US steelmaker facing a potential strike by the United Steelworkers union next month, has announced the first of a series of major steel mill closures, our Foreign Staff writes.

USX, formerly US Steel, is to suspend some operations at its Gary, Indiana plant, laying off about 725 workers. Additional plant closures are expected as the threatened August 1 walkout by the company's 21,313 steelworkers approaches.

As bargaining entered its sixth week, union negotiators indicated that they would accept a wage freeze and certain benefit changes from USX. The company had demanded wage and benefit cuts of between $3 and $3.50 an hour and major changes in work rules.

Senate blocks loans to Angola

ANGOLA will receive no further loans from the US government's Export - Import Bank while Cuban soldiers remain in the country, following a vote in the Senate, AP/DJ reports from Washington. The House of Representatives approved a similar provision last week.

Both houses have now also voted to bar loans to 11 other countries: Guyana, Afghanistan, Laos, South Yemen, Benin, Congo, Mozambique, Nicaragua, Ethiopia, Surinam and Cambodia.

The measure was adopted as an amendment to a bill renewing the bank's charter for 10 years.

Senators criticised $250m worth of loans by the bank to help Gulf, the US oil company now taken over by Chevron, in its operations in Angola.

Brazil moves to tighten grip on state sector

BY IVO DAWNAY IN RIO DE JANEIRO

THE Brazilian Government is to take a firmer grip on its huge 181-company state sector. A co-ordinating committee has been charged with monitoring budgets, forward planning, and day-to-day analysis and control.

The committee is intended to develop a more commercially orientated state sector rather than merely to oversee investment budgets. State enterprises account for as much as 60 per cent of national industrial output, but the plan stops short of creating a new holding company—an idea mooted publicly after a cabinet planning summit last month.

The changes to the State Companies Control Secretariat (SEST), were announced at the same time as revisions to the companies' state financing budgets, prompted by the economic adjustments of the Cruzado Plan, introduced last February.

These allow a real increase of 14 per cent in state financing to Cz 11.7bn over last year's budget, but represent a Cz 14bn ($1bn) shortfall on the total sums sought by the companies themselves.

However, Mr Joao Sayad, the Planning Minister, pointed out that the operational deficits expected this year have been radically revised down to just Cz 994m (+72m), or 0.3 per cent of GDP, against the Cz 13.9bn required last year.

The revision, which surprised even the Government, is at least partially explained by a surge in demand for services and products as a consequence of the Cruzado Plan. This is expected to offset two-thirds of the expected losses, which it was originally estimated might be as high as Cz 47bn.

Cuts on investment programmes ordered by the budgetary revision include a Cz 4.3bn reduction for Petrobras, the national oil company, which will, nevertheless, invest some Cz 34.7bn in 1986 — a 19 per cent rise on last year. Most of the money will be spent on exploration and production programmes.

Companhia Vale do Rio Doce (CVRD), the mining group, faces a 16 per cent cut on last year's investment budget, down to Cz 10.3bn.

Siderbras, the heavily-indebted steel holding company, has been allowed a Cz 7.3bn budget, 41 per cent more than last year, so it can complete a series of projects over the next 18 months to meet surging internal demand.

Multifibre pact may run for five more years

BY ANTHONY MORETON, TEXTILES CORRESPONDENT

SIGNS ARE emerging that the new Multifibre Arrangement (MFA), the world accord that governs a large part of trade in textiles and clothing, will last for five years.

Delegates from some 50 producer countries and the EEC, which negotiates on behalf of all 12 member states, are now engaged in a final round of talks in Geneva on the extension of the MFA, which expires on July 31.

NO 16—8/8½

The US is pushing hard for a 5-year extension and is being tacitly followed by the EEC. The Community would prefer a four-year period but is understood to be writing the option of a longer protocol into agreements it is presently negotiating with Third World producers.

Such a time-scale would involve a major change of heart among the low-cost producers. Two years ago they were *pressing hard for the abolition* of the MFA, which is a major departure from the free-trade rules of the General Agreement on Tariffs and Trade (Gatt).

Over the past 18 months the US textile lobby has mounted a massive and costly campaign against rising imports and this *has paid off since the US negotiators* have taken a tough stand in their talks.

The MFA was introduced in 1974 to regulate the orderly reconstruction of Western textile industries faced by a mounting import bill. It was extended into MFA 2 in 1978 and subsequently into MFA 3 in 1982.

The negotiators have to reach agreement by July 31 or the whole edifice of the MFA collapses. If this were to happen the new Gatt round, which is to be held in Punta del Este, Uruguay, in mid-September, would be imperilled.

Mr Arthur Dunkel, director-general of Gatt, is masterminding both the preliminary discussions on the Gatt talks and the MFA negotiations and is known to feel some exasperation at the failure to reach agreement in spite of 13 months of talks.

The US is determined to include fibres such as ramie and silk in MFA 4 from August 31. They had not previously featured in the quota system. The US claims some countries, suc as China and Hong Kong, have used these fibres to *produce a range of goods, such as* shirts, which can enter the US freely, thereby circumventing the quota restrictions.

Not all the low-cost producers are against a five-year extension. Some of the more important countries, such as South Korea, Hong Kong and Colombia, are *thought to see the merits of a* settled, long-term agreement.

However, they are opposed by India, Pakistan and, possibly, Brazil.

Airbus rules out pact with McDonnell Douglas

THE MOOTED co-operation between the European Airbus Industrie consortium and McDonnell Douglas of the US has little chance of succeeding, the managing board chairman of Messerschmitt-Boelkow-Blohm (MBB), one of the four Airbus partners, said, Reuter reports from Ottobrunn.

Mr Hanns Arnt Vogels told the MBB annual news conference that McDonnell Douglas has approached Airbus in early 1986 about a possible co-operation between the two after it became clear the European consortium was serious about developing and building its new Airbus A340.

Mr Vogels said McDonnell Douglas had proposed Airbus co-operate with it on its long-haul passenger plane project the MD-11, if the Europeans were to drop its development projects for the long-range A340, due to fly in the 1990s.

He said Airbus rejected this but proposed that McDonnell Douglas drop its MD-11 plans and cooperate instead on the new Airbus plane.

"I can hardly imagine McDonnell Douglas accepting our proposal, just as I cannot imagine our accepting theirs," Mr Vogels said.

Brazil and Argentina in market ties accord

By Tim Coone in Buenos Aires

THE ARGENTINE and Brazilian Governments have reached an economic agreement which could well lay the foundations for the development of a new regional common market in South America.

President Jose Sarney of Brazil is to meet President Raul Alfonsin of Argentina in Buenos Aires at the end of the month to ratify the agreement. Both presidents have repeatedly stressed the over-riding importance of regional co-operation to stimulate economic growth in South America.

A joint communique issued by the two countries' Foreign Ministries on Monday night *states that future economic* ties between the two countries will be based on:

- Extensive co-operation in development of high technology industries.
- Balanced trade in which neither country will become a specialised producer of goods for the other.
- Preferential treatment for industrial and agricultural produce of either country to the exclusion of products from third countries.
- Improvement of energy, communications and transport links.

The moves towards trade integration between South America's two economic giants have generated many expectations and conflicts among producers in both countries. Some welcome the possibility of an expanded market for their products, while others fear competition from their more efficient neighbours. The latter have usually held sway and undermined previous initiatives.

However the outline accord goes some way towards allaying these fears, by emphasising flexibility and a "dynamic equilibrium in trade with neither of the two countries becoming specialised in any sector, whether in production or in commerce."

No abrupt changes in trade patterns can be expected as many obstacles remain to be resolved, especially in relation to marked price differentials for similar products available in both countries due to subsidisation policies and bureaucratic inertia.

Colina McDougall looks at companies which have found a strategy for success

Avoiding pitfalls of the Chinese market

EARLY involvement, tough negotiation, forward thinking and flexibility have brought Molins of the UK a leading maker of cigarette machinery, around $42m worth of business in China in 1985 and good prospects for this year.

This success, analysed in Nigel Campbell's 168-page China Strategies, is also attri*buted to thorough homework*, avoidance of troublesome joint ventures and responsiveness to China's real needs.

Following low-key but successful contacts initiated in the 1960s, Molins first organised technical seminars in China in 1977-78. Through these they gained detailed knowledge of China's technical standards. This proved vital when they proposed using new technology to the Chinese to speed up manufacture and make the 10 per cent savings in tobacco that the Chinese wanted. At the same time, they learned that China was eager to modernise 300 small cigarette factories.

Unwilling to enter a joint equity venture because of potential pitfalls, Molins proposed a licensing and royalty arrangement for local manufacture of machinery. The Chinese could not afford this, so a compromise was agreed under which, if Molins were guaranteed a certain level of orders, part of the profits would be used to finance technology transfer.

The Chinese wanted Molins' latest technology, but eventually agreed that it was too difficult for them to make and operate, settling instead for 1960s equipment. In November 1982, five weeks of tough and disruptive bargaining over levels of orders and costs ended in a contract signed only the day before Molins were due to leave.

This deal proved successful, with Molins receiving orders 15 per cent and 30 per cent up on the guaranteed amount in 1983 and 1984. Then, realising that China would never have the money to replace all its old machines, the company started to supply the major tobacco province, Yunnan, with rebuilt equipment and a special training scheme.

"This business has grown to such an extent that currently Molins has some 70 rebuilt machines on order and has opened a special rebuilding operation at Milton Keynes solely for that purpose, supplying machinery to more than 30 factories throughout China," the study comments.

Racal, makers of radio, radar and telecommunications, have also been innovative, offering the Chinese agreements which give both sides almost all the benefits of an equity joint venture without the problems of delays.

A successful contract for the co-production of automatic radar plotting aids involved transfer of technology, establishment of a production line and supply of components. It also included training in assembly, quality control, management and marketing.

Racal undertook to supply continuing support, help with exports, and to consider using Chinese components in Racal plants and buying back the co-production's output if standards were high enough.

Like Molins, Maisner Instruments, part of a larger European group, were early into the market in 1971. They too focused on frequent seminars to brief their Chinese customers, and now include in the product purchase price the cost of a one-week training visit for an engineer from the purchasing enterprise to the European factory.

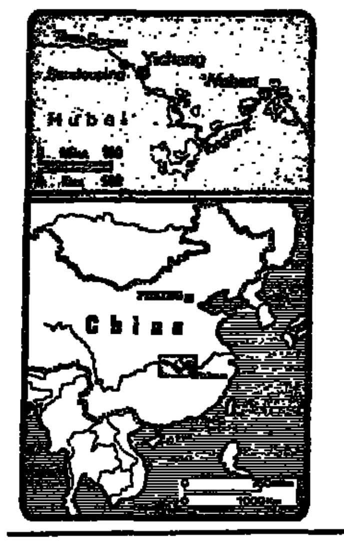
Maisner now has a close relationship with a research institute in Peking which carries out its servicing for a modest fee. The company believes it works more directly with its customers and has a wider customer base than do its competitors. Business has doubled every year since 1982.

Among the most ambitious foreign projects in China is Pilkington's flat glass plant in Shanghai, where along with three Chinese and one Hong-kong partner, the UK company is building a 5,000-ton-a-week factory. Major problems have been the stumbling blocks in the Shanghai bureaucracy and the difficulty of getting foreign exchange for imported components. But for Pilkington the Chinese market was almost essential as it was the one market the company had still to develop.

The study identifies some of the problems, strategies and successes of doing business in China, urging companies to consider carefully the risks, costs, staffing levels, language ability, short- and long-term profit potentials and sheer management time which China requires.

Negotiations with Chinese officials need skill, perseverance, tact, patience and some cultural understanding, it argues. With those qualities businessmen should not be too depressed to learn that while in the West there tends to be a linear or horizontal view of time, where something once past is lost, "in China Taoist philosophy suggests that time travels in a circle."

China Strategies: The Inside Story, by Nigel Campbell, University of Manchester/University of Hongkong.



A CANADIAN consortium, led by the SNC group, Lavalin and Acres International, will undertake a validation study for the proposed $8bn (£5.3bn) Three Gorges hydro-electric project on China's Yangtse River, reports Robert Gibbens from Montreal.

The consortium's umbrella company, Canadian International Project Managers (CIPM), will be assisted by Hydro-Quebec and British Columbia Hydro, two Canadian provincial utilities.

Mr William Pearson, president of CIPM, said the group will carry out studies with Chinese engineers aimed at providing international institutions such as the World Bank and the Chinese Government with sufficient information to decide on a go-ahead and financing. The study should be ready within the next twelve months.

The validation study, which follows a pre-feasibility study by CIPM last year, will deal with dam, locks, powerplant, infrastructure, earthquake, flooding and reservoir risks as well as environmental and social problems. It will recommend whether proposed 500-Mw turbine generators should be raised to 700 Mw. This would bring the original projected 13,000 Mw capacity to 18,000 Mw.

Reuter adds from Peking: Peking Review magazine said this week that plans to build the Three Gorges dam is feasible, and western diplomats said the mention in the official publication was the strongest indication yet that the project will go ahead.

VOA relay deal under threat

BY ANDREW WHITLEY IN TEL AVIV

A ROW over work for Israeli companies has put in jeopardy next week's planned signing of an agreement between Israel and the US on the construction of a $300m (£200m) radio transmitting station in the Negev desert.

Mr George Bush, the US Vice-President, had been expected to officiate at the signing ceremony during a three-day visit to Israel commencing Sunday. The transmitting station, one of the most powerful in the world, will beam Voice of America and Radio Free Europe programmes to the Soviet Union.

The Communications and Foreign Ministries back the American stance in favour of an open competition. But the Justice and Finance Ministries have sided with the Arava District *Authority, where the transmitter* will be located. Behind their political allies wait some of the biggest names in Israeli industry.

The Justice Ministry said this week that three points separate the two camps: the amount of work Israelis will receive, the question of who will take responsibility for any damages claim once the instalation is built and the rate of taxation to be applied to the contractors.

Mr Yeshayahu Gavish, president of Koor Industries, one of Israel's top industrialists,, said last week that Israel should be compensated—in the form of contracts for local companies—for the political risk it was taking by allowing an overtly anti-Soviet propaganda station to be based on its soil.

The US side argues that, because the project is being financed by US Government money, contracts must be equally *open to tender* by American or Israeli companies.

Backers of the project in the Communications Ministry hope to get a final decision through the inner cabinet tomorrow, prior to the Bush visit.

Japanese steel pipemakers agree dollar payments

BY YOKO SHIBATA IN TOKYO

JAPAN'S four major steel pipe manufacturers, including Nippon Steel, have reached basic agreement with the Soviet Union to settle half of their steel pipe export deals in US dollars beginning with October shipments as a safeguard against exchange rate risks resulting from the yen's steep rise.

Under the agreement with the Soviet Steel Trade Organisation last week in *Moscow*, half the Soviet-bound steel pipe will be financed by yen-denominated loans from the Export-Import Bank of Japan. The remainder will be financed by dollar-based suppliers' credits to be extended by the bank through Japanese trading houses.

The Soviet Union sought a dollar denominated payment to avoid foreign exchange risks caused by the higher yen, while, the Japanese side proposed a payment formula which will share foreign exchange risks equally.

Steel pipe deals with the Soviets traditionally have been *settled in yen, as the bank loans* in principle can only be extended in yen.

The two sides will set the amount and price of their new deals at negotiations likely to be held in August.

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Government eases brakes on council spending

BY RICHARD EVANS

THE GOVERNMENT in a major policy reverse is to allow a big increase in local authority spending next year in a bid to peg increases in rates (local property taxes).

Mr Nicholas Ridley, Environment Secretary, announced in the House of Commons yesterday that public expenditure planning totals for English councils would be raised by £2.9bn in 1987–1988 to £25.2bn, and that there would be an increase of £1.1bn in grant from the Exchequer. Planning totals for Welsh and Scottish councils will be raised by a further £500m.

The significance of the announcement is that it signals the end of the bruising conflict of recent years between central and local government over finance. In a deliberate policy move designed to push local authority spending into the background, the Government has assumed that council expenditure in 1987-1988 will be at the current years' level, plus an allowance of 3¾ per cent for a forecast rise in inflation. In other words, council spending will be allowed to stand in real terms.

According to Mr Ridley this means that in practice that there should be on increase or very low increase in rate bills if authorities budget responsibly.

The announcement means that there will be an increase in Exchequer grants from £11.7bn this year to £12.8bn next year. The increase will make the bids of other ministers in the public spending negotiations in the autumn difficult to achieve.

Opposition leaders regarded the provisional rate support grant settlement which will be modified or confirmed in December as a cynical attempt to buy votes in the spring in what could be general election year. Dr John Cunningham Labour's environment spokesman, claimed that Mr Ridley's statement was "grotesquely misleading."

"You have improved the presentation while diminishing the substance of what you have had to say. Your words demonstrate the needless damage which has been inflicted on local authorities for the last six years" said Dr Cunningham.

But the provisional settlement will be widely regarded as a victory for those ministers who have been arguing that the problems arising from a policy of imposing strict controls often regarded as unrealistical and arbitary is no longer worth the trouble. Ministers now see a need for more realism in order to end the political conflict with many authorities.

The Government still believes there will be intense pressures on councils to keep rises low, however.

"Ratepayers will now have the certainty that the blame for high increases lies fairly and squarely on the door of their local authority." Mr Ridley said. He saw the package as providing "great certainty for all authorities about their grant entitlements and ... tough pressure on authorities who persist in over spending."

Taking the proportion of central Government grant to 46.4 per cent of local authority spending means the halting of a seven-year trend. In previous years it has been Government policy to reduce steadily the amount tax payers contribute towards local spending with rate support grant coming down in stages

Mr Ridley spelled out his hit list of councils which, he said, had been judged guilty of major overspending and picked for rate capping next year.

Twenty authorities are to be rate-capped. The 11 who are already capped are: Basildon, Camden, Greenwich, Hackney, Haringey, Islington, Lambeth, Lewisham, Southwark, Newcastle upon Tyne, Thamesdown.

In addition, Brent, Brighton, Gateshead, Hounslow, Middlesbrough, Newham, North Tyneside, Sheffield and Tower Hamlets are rate-capped for the first time.

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EEC code sets out obligation to S. African workers

BY CHRISTIAN TYLER, TRADE EDITOR

THE EEC code of conduct for companies operating in South Africa has been strengthened to spell out more clearly employers' obligations to their black workers.

The new text, published in London yesterday, calls on companies to recognise black trade unions and to support local projects that improve the quality of life in black townships.

A new section urges employers to help black workers set up as sub-contractors and give them preferential treatment as suppliers.

The minimum pay formula has been changed to suit the UK's interpretation. It now specifies a "supplemented living level for an average sized family" as being the absolute minimum necessary. This replaces reference to a level 50 per cent above the minimum required to meet basic needs. "Nevertheless, companies should make every effort to exceed this level when fixing wages," the code says.

More than 170 British companies with subsidiaries or affiliates in the country have been told that the Government had sought to "limit any increase in the financial and other burdens placed on companies at a time of recession in South Africa."

The majority, according to the Department of Trade and Industry (DTI), are already performing creditably under the voluntary code and would find few difficulties in meeting the new terms.

The code is seen by the Government as a chance for companies to demonstrate their contribution to "the social and economic development of their black workforces and thus to peaceful change in South Africa."

Continued involvement and contact, the DTI says, was the best means of exerting UK influence. The Government had resisted international pressure for "punitive and destructive economic sanctions."

The code, which was first drawn up in 1977, requires companies to make an annual report on their contribution to desegregation and black workers pay and welfare.

The last report, published in March, notes that only three companies from whom a report might be expected had not provided one.

Code of Conduct for companies with interests in South Africa. Cmnd 9860: HMSO, £2.40.

British Rail speeds into profit and cuts call for public funds

BY ANDREW FISHER, TRANSPORT CORRESPONDENT

BRITISH RAIL accelerated back into the black in the financial year to March 31, 1986, producing a tiny profit of £1.2m which left far behind the £420m loss of the previous 15 months.

Losses came down sharply on all of BR's passenger and freight services and the total Government grant was reduced from £1.17bn to £896m. Before interest payments of £71m (£72m), BR made an operating surplus of £48.9m against a £232m loss.

Sir Robert Reid, chairman, said that the group had further cut its call on public funds while embarking on its biggest investment programme, totalling £2bn in all, for 25 years.

In real terms, after allowing for inflation, he said BR had achieved a further cut in Government support of £80m. Thus the annual figure was now £131m less than in 1983, a fall of 14 per cent.

"More important, however, is the fact that we are well on course to meet our principal objective of reducing support by 25 per cent between 1983 and March, 1987," he said. But he admitted that cuts in administrative staff had affected standards of service and that improving these was a major concern of BR.

BR's return to profit in 1985-86 stemmed from a mixture of improved performance and efficiency, employment cuts and an absence of several financial burdens incurred the previous year.

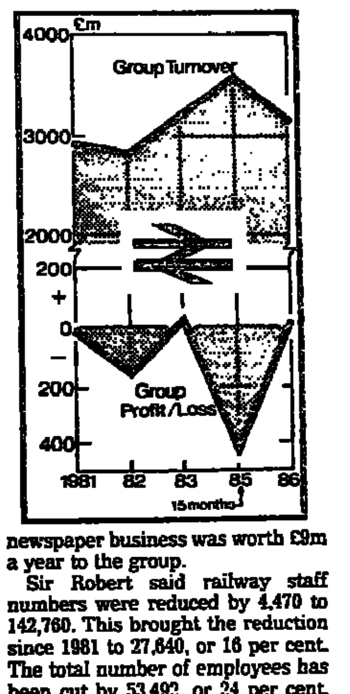
The coal strike cost BR heavily in 1984-85, as did the refusal of some railwaymen to move coal, iron ore and oil during the lengthy dispute.

Also weighing on the results of the previous 15 months, when BR changed its year-end from December to March, were the provisions for restructuring British Rail Engineering (Brel), where heavy job losses are being implemented. In addition, there was a large book loss on the sale of the Sealink ferry concern.

Without these burdens, BR was able to climb out of the financial abyss last year, while also increasing staff productivity by 3 per cent and investing £412m in the rail network.

InterCity services, where punctuality was below target but is now improving, reduced their deficit from £172m to £117m. Losses on provincial services, where £200m is being spent on new trains, were down from £661m to £504m, while London and the South East (renamed Network SouthEast) lost £223m (£326m).

After grants, passenger services ended up with an operating surplus of £51.4m (£13.1m). Freight losses dropped from £264m to £17m, while the parcels sector made a lower profit of £6.3m BR's parcels division was hit in January by the switch to road of News International, whose newspaper business was worth £9m a year to the group.



Sir Robert said railway staff numbers were reduced by 4,470 to 142,760. This brought the reduction since 1981 to 27,640, or 16 per cent. The total number of employees has been cut by 53,492, or 24 per cent, over the same period to 173,760.

BR's passenger volume during the year was its highest since 1979 at 18.8bn. In the past four years, staff productivity (train miles per staff member) has risen by 13 per cent, with the cuts in manpower far outstripping the 5 per cent fall in train miles over the period.

Barclays forms broker 'for man in the street'

BY DAVID LASCELLES, BANKING CORRESPONDENT

BARCLAYS Bank is forming a new stockbroking operation – Barclayshare – which, it says, will bring the benefits of City of London deregulation closer to the man in the street. The venture is the most ambitious yet by a UK clearing bank to link the retail investor to the changes in the City markets.

Barclayshare will enable Barclays customers to invest using the large scale stockbroking, market-making and research facilities which have been assembled by the banking group over the last two years.

According to Mr Robin Hoyer Millar, general manager responsible for financial services, these would be both easier and cheaper than the investment facilities traditionally available through commercial banks. Barclays was "the only financial institution to establish a new stock exchange member firm specifically for the man in the street," he said.

Barclayshare will draw on the resources of Barclays de Zoete Wedd (BZW), the investment bank created by Barclays from Barclays Merchant Bank, and de Zoete & Bevan and Wedd Durlacher, the broking and jobbing firms it acquired in March

It will offer two basic services. The first, available from next January, will be based on the new Personal Equity Plans which were announced in the last budget by the Chancellor of the Exchequer, and provide tax incentives to private investors. Barclayshare will manage these accounts on its customers' behalf.

The second will be an investment information, advice and dealing service for customers who want to make their own decisions. Customers will be able to obtain share information from a Barclays newsletter and from screens in Barclays branches. Orders will be placed either directly by telephone to Barclayshare, or through branches. This service will be introduced on a pilot basis next summer.

Mr Hoyer Millar said it was too early to say exactly how much these services would cost. "But we are out to be as competitive as we can." He said charges would depend on how much volume Barclays generated to cover its start-up costs, which he put at £1.5m.

At the moment, Barclays accepts between 800 and 1,000 buy-and-sell orders a day through its 2,800 branches which it transmits to stockbrokers. Mr Gavin Oldham, chief executive of Barclayshare, the new company "could look after 100,000 customers without much trouble."

Other UK clearers are preparing similar plans which should be announced shortly.

Conservatives tune up the party machine

BY MICHAEL CASSELL

THE CONSERVATIVE Party is stepping up efforts to improve both its party organisation and the presentation of policies in the face of what it regards as a revitalised and increasingly successfully Labour offensive.

With a general election at most two years away, and possibly as early as next summer, party managers acknowledge that in recent months Labour has been making much of the running and that there remains plenty of room for improvement in putting across the Conservative message.

A small group of senior Cabinet ministers, including Mr Norman Tebbit, chairman of the Conservative Party, has already been set up by the Prime Minister to review policy up to and well beyond the next election. But it is also recognised that unlike the run up to the 1983 election, the Tory party machine will be up against some formidable Labour opponents.

Mr Tebbit, whose own position has recently been called into question, is known to think that Labour has, under the guidance of Mr Larry Whitty, the party's general secretary, put together an effective and competent organisation.

Labour also seems to be doing well in raising the funds required to maintain its national campaign. Conservative organisers believe the financial contributions from trades unions are behind the apparent high spending approach to several recent campaigns, which they claim the Tories have been unable to match.

They point out, however, that rate (property tax) payers will, indirectly, be helping to finance the Labour Party offensive, with Labour-controlled councils spending an estimated £6m this year to help promote Socialist policies.

Although Mr Tebbit and his colleagues believe the party has not done as well as it could in wresting the initiative from the opposition, they claim they are well on the way to improving the situation

Kinnock lays down law, Page 9

UK NEWS

Scientists challenge policy on radioactive disposal

By David Fishlock, Science Editor

SHARP CRITICISMS of some of the judgments of MPs in a House of Commons select committee report on radioactive waste, published in March, are contained in the latest annual report of the Government's independent advisers on radioactive waste management.

Their report accuses MPs of having "seriously under-estimated the extent to which considerations of political expediency and action – or inaction – specifically at parliamentary level have been responsible for the disastrous stop-go policy."

They agree that Britain's waste disposal programme lags behind those of France, West Germany, Sweden and the US, but they do not share the MP's view that industry is to blame.

Prof Paul Matthews, chairman of the Radioactive Waste Management Advisory Committee, spoke yesterday of "an extraordinary discrepancy between technical facts and political reaction to them."

Sea dumping was a sensible route for disposing of a well-defined portion of radioactive waste, and his committee recommended that the 2,500 tonnes of such wastes accumulated since the operation was halted by the Government in 1983 should now be dumped.

The obstacles, said Prof Matthews, a Cambridge physicist, were "purely political." His report states that Britain's sea dumping practice has margins of safety "more than ten thousand below internationally laid down dose limits."

The ban on sea dumping is not supported "by even the most pessimistic estimates of doses to individuals," he said.

His report also corrects the select committee on several points about the technical advisers' own activities.

Annual report of the Radioactive Waste Management Advisory Committee. HMSO. £5.70.

Lear Fan aircraft project is offered for sale

BY OUR BELFAST CORRESPONDENT

THE LEAR FAN carbon fibre aircraft project which collapsed at a cost of £56m to the British taxpayer has been offered for sale by the government-appointed receiver.

The project has been freed from threats of legal action over rights to the technology involved. Any recovery of public funds now depends largely on the sale and successful development of those rights.

After an agreed restructuring of the company, Mr Michael Jordan of Cork Gully, who was appointed receiver in May last year, has advertised the assets and undertaking for sale.

He said yesterday that he had received a number of approaches from investors interested in the venture, but so far none had been able to produce the necessary finance.

The offer for sale was "a final trawl" for a buyer before disposing of the assets separately, he said.

The assets include leasehold factories in Reno, Nevada, and Newtownabbey near Belfast, Northern Ireland, specialised plant and equipment for using advanced composite materials, the benefit of development spending together with the technology rights and three prototype aircraft, and the possibility of US tax losses valued at more than $100m.

Mr Jordan said there had been talks with a prospective purchaser of the Belfast factory who was interested in establishing a carbon fibre composites operation.

This would appear to hold out the best hope of replacing lost jobs in Ulster. Mr Jordan believed the factory would make an excellent composites plant. It could have "a tremendous future" with the prospect of producing much needed employment.

British Gas profit rises by 6%

BY LUCY KELLAWAY

BRITISH GAS unveiled yesterday its last set of results as nationalised industry, which showed an increase in current cost operating profit of £688m for the year to March, an improvement of 6 per cent on the previous year's profit of £651m.

Sir Denis Rooke, chairman of British Gas, said that the latest report and accounts "presents a picture of a sound and successful business." British Gas met the Government's financial targets, it increased the total amount of gas sold during the year by about 1bn therms, and gained about 270,000 new customers.

In the present year, however, the corporation may have felt some pressure on its margins, Sir Denis said. The effects of lower oil prices would take time to feed through to gas purchase costs, while competition from cheap fuel oil was already putting pressure on the contract markets.

Sir Denis played down the effects on the corporation of the transition into the private sector later this year. He said that British Gas had come a long way since the industry was nationalised in 1949, and that the strengths built up would not change with ownership. "In an important sense privatisation will not mean change at all," he said.

It would, however, be a "great relief" for the board to be able to take decisions that would not subsequently be overruled by the Government.

Despite a rise in the price of gas there was no increase in domestic prices last year. The 1.7 per cent increase announced after the year end was well below the rate of inflation, and given present oil prices exchange rates and rates of inflation

Turnover for the period increased from £6.9bn to £7.7bn; the volume of gas sold rose to 18.7bn therms from 17.7bn, while the average workforce employed during the year fell from 108,000 to 104,000.

Because of the long life of its assets, British Gas plans to continue to present its accounts on a current cost basis after it has been privatised. On an historic basis British Gas made pre-tax profits last year of £1.1bn compared to £992m last year.

Air transport authority earns £6.8m

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

THE CIVIL Aviation Authority (CAA) the regulatory body for UK civil air transport, earned a profit of £6.8m on a turnover of £226m, in the year to March 31, compared with £7.5m, on a turnover of £235m, in the previous year.

Mr Christopher Tugendhat, newly appointed chairman of the authority, said yesterday that "it would be misleading to read too much into these results.

"The CAA is not expected to seek large profits, and such an outcome would be unwelcome to the airline industry, which pays its charges, and to the travelling public on which that industry depends.

"What the Government, industry and travelling public are entitled to is evidence that the CAA is effectively controlling its costs. I am glad to note that CAA costs have been reduced in real terms over the last five years, and one of my priorities will be to ensure that the CAA continues to make progress in this direction."

In any case, he added, the authority was not permitted to keep indefinitely any profits it made in the largest area of its work – UK on route navigation services – but was obliged to pay them back after two years through reduced charges to airlines.

AECI LIMITED

(Incorporated in the Republic of South Africa, Registration No. 04/02590/06)

INTERIM REPORT

FOR THE HALF-YEAR ENDED 30 JUNE 1986

Turnover up 21% to R1 308 million
Net trading income up 33% to R141 million
Earnings per ordinary share up 36% to 45 cents
Interim ordinary dividend increased by 1 cent to 25 cents per share

Trading results

The directors announce the unaudited trading results of the Group for the six months ended 30 June 1986 as follows:

1985 Year R millions	1985 First half R millions		1986 First half R millions
2 340	1 081	Turnover (1)	1 308
253	106	Net trading income	141
91	40	Financing costs (2)	37
162	66		104
53	18	Taxation	39
109	48		65
9	5	Investment income (3)	7
118	53	Net income	72
4	2	Attributable to preference and outside shareholders	2
114	51	Net income attributable to ordinary shareholders	70
74c	33c	Earnings per ordinary share	45c

(1) Includes exports of R108 million (1985=R97 million).
(2) After including unrealised exchange differences of R12 million (1985=R8 million) on foreign borrowings, and deducting capitalised interest of R1 million (1985=R6 million).
(3) Includes share of after-tax net income of associated companies and dividends from foreign subsidiaries.

Comments

The volume of domestic sales for the first six months showed some improvement relative to the corresponding period in 1985, with the increase being more noticeable in the second quarter. Demand from export-related sectors such as the mining industry was sustained at a high level while some domestic markets recorded meaningful growth. Elsewhere, however, the depressed level of consumer spending was reflected in a further decline in volume.

Rapid cost escalation in raw materials, particularly those imported, was only partially recovered in selling prices. However, margins improved slightly from the low levels experienced in the first half of 1985 in response to higher plant loadings and continued success in containing operating costs. The reduction in financing costs reflects not only the decline in domestic interest rates but also a lower aggregate level of borrowings.

Profitability for the remainder of the year will depend on a number of factors, notably stability in the value of the Rand and the absence of serious industrial unrest. Subject to these factors, and given reasonable rains in the summer rainfall area, earnings for the second half-year should exceed those of the first six months.

On behalf of the Board
G. W. H. Relly } Directors
M. A. Sander }

Declaration of ordinary dividend No. 104

NOTICE IS HEREBY GIVEN that an interim dividend of 25 cents per share, in respect of the year ending 31 December 1986 has been declared to holders of ordinary shares registered in the books of the Company at the close of business on 29 August 1986.

Cheques in payment will be posted from the offices of the transfer secretaries in Johannesburg on or about 25 September 1986. Changes of address or dividend instructions to apply to this dividend must be received not later than 29 August 1986. In terms of the Income Tax Act, dividends payable to persons not ordinarily resident nor carrying on business and to companies not registered nor carrying on business in the Republic of South Africa are subject to deduction of non-resident tax at the rate of 13.7025%. The transfer books and register of members will be closed from 30 August to 12 September 1986, both days inclusive.

By order of the Board
J. M. Doods
Secretary
22 July 1986

Registered Office:
16th Floor, Office Tower
Carlton Centre
Johannesburg

Transfer Secretaries:

Consolidated Share Registrars Limited
40 Commissioner Street
Johannesburg

and

Hill Samuel Registrars Limited
6 Greencoat Place
London SW1P 1PL
England

UK NEWS

Spending stays within target

LOCAL AUTHORITIES overshot their capital spending cash limits last year by 37 per cent, the Treasury said yesterday, but overall government spending is still estimated to have been £800m below target, **George Graham writes.**

Provisional figures for the 1985-86 financial year show local authority capital expenditure on roads, housing, schools and social services exceeded the official cash limit of £1.91bn by £709m in England. In 1984-85 they overspent by £1.07bn or 44 per cent of their cash limit.

Similar cash limits for local authorities in Scotland and Wales last year were overshot by £300,000 and £16.9m respectively, while new towns in England also overspent by £2.2m.

Apart from the local authorities and new towns, only the Overseas Development Administration overspent last year. It exceeded its administration cash limit of £26.57m by £160,000. The ODA underspent on its aid budget, however, by £29.8m.

The Ministry of Defence underspent its defence procurement cash limit by £255m and its other cash limits by a net £17m.

The Treasury applies 125 cash limits totalling £55.8bn to voted government spending. These were undershot by a total of £482m in 1985-86.

Cash limits cover around 40 per cent of the planning total for government spending.

□ **ROLLS-ROYCE** is "very close" to launching a new turbo-propellor engine which it hopes will maintain the manufacturer's strong position with this type of power-plant in world airliner markets, said Mr Jim Keir, director of civil engines for Rolls-Royce.

□ **REDUNDANCY** notices will be issued to 1,100 tin miners in Cornwall, south-west England, next week unless the Government agrees to grant aid for the county's three remaining mines. The men are employed at the Wheal Jane, Pendarves and South Crofty mines run by Carnon Consolidated, a subsidiary of the Rio Tinto-Zinc group.

□ **TEACHERS** are to be offered a pay and conditions package by local authorities which will be "substantially above" the £1.25bn proposed by the Government last August.

□ **POLICE** are to have a 7.5 per cent pay rise from September 1. The increase, for 140,000 officers, is in line with the rise in average earnings and is the same percentage as last year's rise.

□ **VILLAGE** shops, under threat from new out-of-town superstores, can survive if they are effectively managed and operated, says the Development Commission, which advises the Government on rural matters. "Well over 1,000 communities no longer have any shopping facilities at all," it says in a report.

□ **LEFT**-wing local authorities which continue to refuse to make satisfactory civil defence preparations for nuclear war face financial penalties. Home Office minister Mr Giles Shaw said there was "a widespread lack" of committed planning.

□ **FARMERS** face increased fines and imprisonment for breaking new laws covering straw burning. Unlimited fines and up to two years' imprisonment can now be imposed on farmers who allow smoke to drift across roads and endanger motorists.

□ **AIRLINE** passengers could be equipped with individual "smoke hoods" that could save lives in the event of an accident where fire generates suffocating volumes of smoke. The UK Civil Aviation Authority is seeking the views of airlines, manufacturers and professional bodies.

Philip Bassett explains why a deal with unions is vital to Labour's election chances

Kinnock lays down the law

TODAY, Labour and the Trades Union Congress (TUC) will unveil formally a key plank of the party's general election strategy – Labour's deal with the unions on future employment law.

The deal, enshrined in a document entitled People at Work: New Rights, New Responsibilities, could be Labour's last chance before an election to get right an area of policy which has been dogged with difficulty for at least the last 20 years, and probably longer. It will certainly be Labour's last chance to have sufficient time before an election to push into the background any difficulties the deal might create with the unions.

Difficulties there are, but the move's importance overrides them. Today's statement is vital for Labour's election chances – and because of that, wholly unprecedented in its attitude to the party's relationship with the unions.

Never before has the Labour Party, the party created by the unions, attempted to bring in controls of trade union activities on the scale proposed in the document. Never before has Labour tried to make that control statutory, backing it up – albeit now in a modified form – with the involvement of the courts, traditionally seen within the Labour movement as its enemy.

At the end of the 1960s, when union power was rising, the unions defeated Labour's last real attempt at control, In Place of Strife. In the mid-1980s, with the unions in retreat, far from kicking out the plan, they have – with some notable exceptions – agreed to it.

How has this been achieved? What has changed? Most obviously, economic circumstance; unemployment is still rising, and though the shakeout of Labour is not what it was, fear of the dole is still inhibiting behaviour.

The Conservative Government seized its time, and brought in much more widespread union balloting, in the belief this would encourage union moderation. Far from casting aside the Conservatives' shackles (though much Labour noise is expended on claiming intent to repeal the Tory laws wholesale), Labour is in effect grasping them. The buckles may be padded by a whole host of other provisions, but buckled down the unions will be.

Most of that firmness of intent, and degree of control, comes from the Labour leadership. Some union leaders, and some high in the Labour Party, have been astonished at the degree of influence now wielded on union affairs at a senior level by the office of Mr Neil Kinnock, the Labour leader.

It has led to disquiet both in Labour's London headquarters, and in some unions – disquiet which has emerged in some policy papers taking a position contrary to the line, which has then been firmly and publicly squashed by the party leadership.

So set on keeping balloting was the Labour leadership that there was a belief in the unions that Labour would retain a wider membership franchise in union affairs with or without union agreement if necessary. Better then, the union thinking went, to bite the bullet early and exercise what influence was available.

Today's statement is unprecedented, too, in its array of new rights to go with these new responsibilities (new under Labour, at least) on balloting; much wider provisions than ever seen before on job security, on training, against unfair dismissal, on protection for part-timers, on equal opportunities.

Significantly, the focus is individualistic. While that emphasis proved to be very much a strength for the Conservatives, like balloting, its positive elements for both Labour and the unions were not grasped initially. Slowly recognising the good side of balloting came gradually, with experience: the parallel shift of focus towards individual rights came only after Mr John Edmonds, general secretary of the GMBU general union, all but single-handedly tilted the balance of the entire debate so that now, the provisions in today's document on collective rights for trade unions rather than individual rights for their members are few and far between.

Accepting the 1980s change in the relationship between union leaders and their members, originally engendered at workplaces and astutely picked up by the Conservatives, principally when Mr Norman Tebbit was Employment Secretary, is a crucial assumption in the new Labour-TUC deal.

The fourth element, beyond Government, the TUC and the Confederation of British Industry, is now both made overt in the paper, and takes precedence. "A Labour Government will demonstrate its readiness to assume responsibility for managing the nation's economy – in partnership with workers, unions and employers."

Labour's embracing of such distinctions has made some union leaders uneasy, to the point where there is a divergence between how the statement, and its corresponding economic partner – fair wages strategy, a national minimum wage – is seen. Some in the TUC want the emphasis to be on new rights, and a new strategy to end low pay. Some in the Labour camp believe what the public will want to know is what happens, under Labour, to union power (Answer: ballots) and to wage-pushed inflation (Answer: a kind of minimum wage-based incomes policy, backed up with already-voiced voluntary union pledges of pay restraint).

But the unease is set to one side. For employees, the Labour-TUC statement does offer a lot. New protections at work, continued direct ballot-based influence in their unions. For the unions, it offers a lifeline, albeit one tagged with hooks on which they may wriggle, but from which they can't escape.

The unions have little real choice. Mr Kinnock is effectively presenting them with an ultimatum: accept this, or don't. If you don't, I'm finished for this election, so is Labour, and so are you. If you do, we stand a chance.

For Labour, it may not be much more than that. Unions are probably an electoral asset to no one. The best that Labour can achieve is a deal which, in effect, shifts their negative electoral influence so manifest in 1979 and 1983 to neutral.

Balloting and some form of economic deal are the means which keep them linked to Labour (and so keep the money for the party coming in) but also try to make them not an election issue.

Labour's opponents will not be content with that. For all the new style new realism of balloting, they will seize on the old style elements in the deal of proposals on industrial democracy, for a joint economic forum, still cloudy after all these years, called the National Economic Assessment, as clear signs that whatever the glossy Kinnock presentation may say, the unions are still tying Labour's tail.

There is some truth in that, but reality is that the unions have had to come to terms with a new approach to them from Labour,

Mercury to test satellite service

By David Thomas

MERCURY COMMUNICATIONS, the Cable and Wireless subsidiary, is to test a new satellite data service in the autumn in conjunction with the London Stock Exchange, the UK subsidiary of IBM and Electronic Data Systems (EDS), the data processing subsidiary of General Motors.

The decision to consider offering this new service is a further sign of how Mercury, the sole competitor to British Telecom's main telecommunications network, wishes to develop its operations. Mercury last week announced a joint venture in managed data networks with ICL, the largest UK-owned computer company.

Interest in satellite communication of business information is growing, partly because of a recent fall in service prices. Mercury is buying hardware and software for an undisclosed sum from Comsat, a US satellite company.

The Mercury system to be tested by the stock exchange, IBM and EDS will allow rooftop-to-rooftop transmission of complex data by satellite between a central terminal and a large number of other terminals, as well as intercommunication within each network. Companies will need small transmission dishes on their premises.

Mercury says that the system is more flexible than other data communication services operating in the UK. BT does not offer a comparable service.

Charges will not depend on the distance over which information is communicated. Mercury said the service would be particularly attractive to locations not easily accessible by traditional methods.

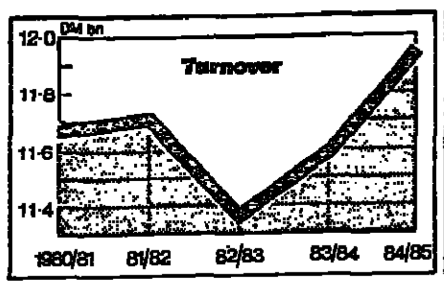
IBM said it was interested in testing the service to see whether it could extend the capability of its managed network services.

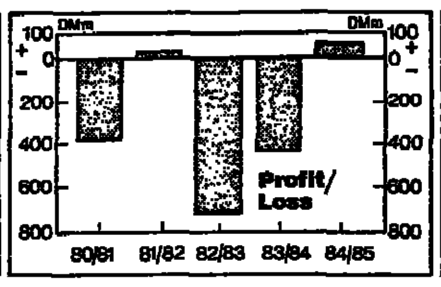
EDS said it was interested in the service's ability to communicate with a large number of sites.

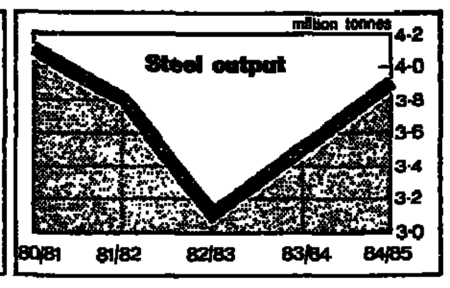
The stock exchange said it was testing the service without commitment.

MANAGEMENT

EDITED BY CHRISTOPHER LORENZ







Salzgitter's heart of steel is strengthened by surgery

Rupert Cornwell reports on the renaissance of the West German state-owned group


Ernst Pieper: philosophical

IF Ernst Pieper today wears the serene look of a man who has gazed upon the industrial equivalent of hell and survived to tell the tale, then he can hardly be blamed. Barely three and a half years ago, few heads in West Germany's public sector industry seemed closer to the executioner's axe than his own.

In Bonn, the Centre Right had just returned to power. A *frosty, technocratic, new finance minister*, Gerhard Stoltenberg, was promising public sector profit instead of loss, and an end to subsidy and incompetence. And yet there was Pieper, an avowed Social Democrat and as such identified with the bad old ways of the ancien regime, sitting atop a mountain of failure at the ramshackle Salzgitter steel and shipbuilding group, 100 per cent owned by the Federal Government.

Previously a senior civil servant, Pieper had been appointed by the SPD back in August 1979 to be chief executive of Salzgitter AG, the group's parent. But over three years later, there was little more to show than accumulated losses of around DM 0.5bn—and the likelihood that even this dubious feat would be eclipsed by the results for 1982-83 alone.

Pieper's managers were criticised as being autocratic. Rumours of ferocious infighting at court were rife. When Guenther Sassmannhausen, chief of the metals concern Preussag, was appointed head of Salzgitter's supervisory board in December 1982, with the job of charting a way out of the mess, he is said to have demanded from Stoltenberg that he be allowed to resign at one hour's notice.

Whether the finance minister granted this condition is unrecorded. But today it scarcely matters. Sassmannhausen is still there. So is Pieper. As for Salzgitter, amid little fanfare or even notice, it has staged one of the more remarkable turnarounds within West German industry in recent years.

Until lately, the group has been the biggest single blot on the balance sheet of state ownership. Those forebodings about 1983 were quite correct. The steel industry crisis was at its height and so were the difficulties of Howaldtswerke-Deutsche Werft (HDW), the shipbuilding concern of which Salzgitter holds 75 per cent. On sales of DM 11.4bn (£3.53bn) the parent lost a record DM 713m in 1982-83 and then another DM 422m in 1983-84.

The year to last September 30 produced a profit of DM 51m and Salzgitter will probably do better still in 1985-86—and even the ultra-cautious Stoltenberg is now starting to whisper the name of Salzgitter as a medium-term candidate for his

ERNST PIEPER is living proof of how easily and naturally in West Germany gamekeepers can turn poacher.

His career has been a zigzag between the steel industry and central government. First, seven years at the private sector Kloeckner in the Ruhr; then, between 1962 and 1974, spells at the Economics Ministry and then the Finance Ministry, where he was the senior official supervising Bonn's industrial holdings. From 1979 he has been head of arguably the most troublesome of them, the Salzgitter steel group.

The irony of it all is that if he has a second home, it is England. The affinity is plain even from his office in Salzgitter's squat headquarters east of Hanover: the sober green and beige colouring and the restrained antique desk which could belong in any London merchant bank. Indeed it nearly might have done.

"Hans Birnbaum, my predecessor here thought I was the right man to take over when he left in 1979," Pieper recalls. "But I wasn't that keen. There was an offer from a private bank in London, and I was very close to going." In the event he was prevailed upon to stay. But he is frequently in England—though not to experience the vicissitudes of the British steel industry at close hand.

Rather southern England, with its respect for privacy and its genteel indolence, seems to be a perfect antidote in the case of Pieper, whose shrewd and affable manner masks a propensity for seven day weeks and working days which run from eight in the morning until ten at night.

He has a house in Hampshire at Milford on Sea, where he regularly spends a fortnight at Christmas and three or four weeks each summer. A keen sailor with his own small boat, the 57-year-old Pieper is a member of the Hurst Castle sailing club. His daughter was even married in England. "I've got many friends there, and the nice thing is, they ask nothing from me."

Another oddity of Pieper is that, while he is a longstanding Social Democrat, his best years at Salzgitter have been under an avowedly free-market Christian Democrat government in Bonn. Indeed it is hard to imagine him having much sympathy for his party at present, as its soul slides gradually leftward.

"Obviously the policy of an SPD Government towards state-owned companies is different from that of a CDU one," he says. "They simply have two different philosophies, and I don't want to judge which is better or worse." But in the next breath he virtually does so.

"In a market economy, public sector companies must be run by market criteria, or else you distort the basic principles of competition. You have got to measure performance by results." Every six months Pieper has a long session with Gerhard Stoltenberg, the finance minister, and Hans Tietmeyer, his state secretary. "They accepted the recovery plan and told me to push it through. I've no complaints with the Government." Nor, evidently, has it any with him.

cherished programme of selling off state shares in the footsteps of companies like Volkswagen, Viag and Veba.

As always in such cases, fortune—this time in the shape of the happier times for the steel industry everywhere—has played a part. Nonetheless Salzgitter illustrates how even a state-owned group, anchored to "sunset" industries par excellence, can be reinvigorated without entirely forgetting its special circumstances and those of Salzgitter—less a company than a community east of Hanover and close to the East German border—are somewhat unusual.

Salzgitter was state-owned from the beginning. It was created by the Third Reich in 1937 to exploit local iron ore deposits and increase the Nazis' self-reliance in key raw materials. With Hitler's defeat and the divisions of the nation, Salzgitter was stranded on the eastern reaches of West Germany. After the war, much of its plant was initially dismantled. Today, the ore for the mills at Salzgitter and nearby Peine is exclusively imported.

Nothing, though, has diminished the importance of Salzgitter as a local employer. Of its 42,000 workforce, 16,000 come from the 31 villages, sprawling over 230 square kilometres, which constitute the modern "town" of Salzgitter, even though its factories there rear over some of the richest agricultural land in Germany.

By 1983 an effective recovery plan had become vital, not only for the group's long-term health but for Pieper's own survival. The problem, as Pieper—who, whatever their differing party allegiances, had struck up a good working relationship with Stoltenberg—saw it, was "how a concern with a lot of social responsibilities could be put to rights."

"Before, we felt we had to protect jobs here, because there's little alternative—and no-one wanted industrially to thin out a place right on the border with East Germany. But after 1983, we said: 'Look, of course we want to keep the jobs. But they must be economical and not just the *result of subsidies*.' So we started."

The therapy came in three stages: first immediate action in steel and shipbuilding, where the losses were greatest. Steel capacity, in line with the pattern throughout the European industry, was slashed from 7m tonnes to between 4m and 5m. Salzgitter pulled out of rolled and light-profile steel completely, to concentrate on sheet and heavy profile products.

In all, Salzgitter's former 20,000 steel payroll was halved. Almost simultaneously, HDW's capacity was sharply reduced in the shipbuilding shake-out of *1983, and its workforce tumbled* to 7,000 from 13,000. "We were paying between DM 20,000 and DM 50,000 per redundancy, and the bill ran into hundreds of millions. That's one big reason for the losses of 1983 and 1984," Pieper says.

Next, Salzgitter began selling off the "less sensible" of its near 100 subsidiaries. All sectors were affected, from steel and shipbuilding to general manufacturing and plant construction. But with the proceeds Salzgitter could finance at least part of the restructuring. Here too, HDW suffered. Its Hamburg operations were sold to the Blohm und Voss yard, leaving it with just one yard, in Kiel.

Finally, Pieper succeeded in persuading the government to inject DM 900m of new capital to cover losses and write-downs. Salzgitter now has DM 1bn of own resources, equal to 16 per cent of its total balance sheet, compared with below 10 per cent at the beginning of the decade. Net annual interest payments of DM 200m on borrowings have been totally eliminated.

In job terms, it has been very costly. In four years Salzgitter's payroll has shrunk from 55,500 to 42,000. Even the church attacked Pieper. But he is philosophical: "In state companies it's always more difficult. People can complain more easily to the politicians." In any case, 'paternalist' duties linger on. Salzgitter trains 3,000 apprentices a year, though it only needs 1,500 of them at most. The extra cost is DM 50m, "and if we weren't state owned we'd have far fewer."

However, the new room for manoeuvre makes the price worthwhile. Salzgitter will continue as a conglomerate, albeit with a heart of steel—the steel business netted, at conservative estimates, DM 95m in 1984-85 even though its remote location amounts to a financial handicap of DM 50m or 60m a year compared with the big Ruhr producers like Thyssen. But "we want to reduce the branches in which we operate," Pieper notes. For that reason, selective sales of subsidiaries will go on, freeing resources for growth sectors.

One of these is electronics, where Salzgitter is represented in Kiel not only by the electronics division of HDW, but by Salzgitter's data and telecommunications subsidiary Hagenuk. A co-operation deal signed with Nixdorf could lead to the Paderborn computer manufacturer taking a direct equity interest in Hagenuk.

At least equal hopes are pinned on anti-pollution business, and notably on Salzgitter's subsidiary, Noell GmbH of Wuerzburg, an expert in techniques to reduce power station emissions, and in high temperature disposal of awkward waste like used oil and cables. Such markets are promising well beyond pollution-conscious West Germany.

In the developing world and Eastern Europe (where Salzgitter has traditionally been strong) its strongest cards are those derived from its steel and coal experience: technology to obtain petrol from coal (first pioneered in the Second World War)—"assuming, of course, that the price of oil goes up again," Pieper notes—and for the transport of coal and other non-liquid commodities by pipeline.

Some of the technology is only at the research stage. But if it proves a real money-spinner, and if financial recovery continues, then the temptation for a centre right government to sell off part of Salzgitter's DM 425m capital to the public could prove irresistible. The unions and probably the SPD would detest the idea, but it is not one which unduly disturbs Pieper.

"I assume that if they get re-elected in January, the Centre-Right will continue with privatisation. The time will come when they think about Salzgitter. And, as chairman, I must accept the policy of the shareholders." But, even if the ownership of Salzgitter does change, its management probably won't. Pieper has just won a new five-year contract, which leaves him in charge until 1992. And who would have guessed that, back in early 1983?

Management abstracts

A defence of nepotism. J. Barmash in *Across the Board* (US), March 1986 (2½ pages)

Quotes differing views for and against nepotism in business, and explains the policies adopted by some major corporations (eg ITT, Manufacturers Hanover Trust); argues that it provides an element of sustained entrepreneurialism, a centre around which non-family employees can rally, engenders family competition, keeps the younger generation off the streets, and keeps companies alive—but it can result in favouritism. Concludes that it's not all bad.

Absentee workers back on the job. D. A. Dilts plus C. R. Deitsch in Business Horizons (US). March/April 1986 (six pages)

Describes a programme, agreed between General Motors and the United Auto Workers' *union*, which reduced absenteeism in one division by a half; examines the main elements; an absentee data management system; tying benefits to hours worked; employee counselling and assistance programmes *funding with savings realised* through reduced absences; and "firm but fair" discipline.

Women with Blue Collars. N. L. Colwill & H. D. Colwill in Business Quarterly (Canada). Winter '85 (3 pp)

Urges management to accelerate the placement of women in blue-collar jobs; recommends recruiting in pairs to counteract women's feelings of loneliness when treated as outsiders and faced with resentment, hostility, and even violence from some men. The authors insist that men be recruited for reception and typing work.

Materials management and import/export trading. J. Inness in BPICS Control (UK). April/May 1986 (4½ pages).

Discusses the influence of international trading on materials management and the need for a greater understanding of the associated techniques, such as international supply chain logistics to control pipeline inventory, lot sizes, transport and cost; reviews means of minimising tax and duties; assesses the effect of differences in national quality standards and the implications of trade restrictions. Establishes the purchasing function as a key corporate resource in the development of new international markets.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p & p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

APPOINTMENTS

British Telecom chief executive

BRITISH TELECOM has appointed **Mr John McMonigall** as chief executive of the company's recently-formed international products division. He succeeds **Dr Peter Troughton** who is leaving to join Alan Patricof Associates. Mr McMonigall joined British Telecom in January as deputy managing director of British Telecom Enterprises, headed by Dr Troughton.

★

C. T. BOWRING & CO has made the following appointments: **Mr S. Harker** and **Mr J. McL. Munro** have been appointed directors of Bowring Space Projects. **Mr T. Madigan** has been appointed a director of Bowring Macalaster & Alison Aberdeen. **Mr G. M. Worrall** has been appointed a director of Bowring Robertson Mitchell.

★

DIAL CONTRACTS has appointed **Mr G. A. Faulkner** its managing director. Mr Faulkner, who formerly held the position of deputy managing director, succeeds **Mr H. A. Henderson**, who has retired.

★

Mr Richard S. Winfield has joined TANN-SYNCHRONOME as financial director and company secretary. He was formerly commercial/financial director of ACE Machinery.

★

Mr Dick Roper has been appointed as sales and marketing director by INTEGRATED VISION SYSTEMS. Mr Roper held senior sales posts with Prime Computers and Data General.

★

Mr Steve Orchard has been appointed sales and marketing director of HILLSDOWN. He was national sales manager with Chivers Hartley.

★

THE TOWRY LAW GROUP has made the following appointments. **Mr Christopher Blackhouse** has been appointed a director of Towry Law & Co. **Mr Richard Palmer** has been appointed a director of Towry Law (Pension Services) and Towry Law (Pensions Consultants).

★

INVESTMENT RESEARCH has appointed **Mrs Elli Gifford** and **Mr David Tickett** to its board, following the recent acquisition of Wolff Charts from Rudolf Wolff and Co (1985).

★

Mr Brian Morrison is appointed treasury manager of the NATIONAL & PROVINCIAL BUILDING SOCIETY from September 1. He will be responsible for the Society's various investment portfolios and wholesale funding requirements. Mr Morrison joins National & *Provincial from the Halifax* Building Society where he was senior dealer, money.

At SUN LIFE GROUP **Mr Les Owen** has been appointed to the executive with the title of assistant general manager (pensions).

★

Mr C. J. Slinn has been appointed managing director of XYLLYX and **Mr A. Cox** and **Mr G. Jeffrey** directors. **Mr R. Chadburn** has resigned from the board.

★

CRANFIELD INSTITUTE OF TECHNOLOGY has appointed **Mr Leo G. Murray** as director of the *Cranfield* School of Management. Prior to this appointment he was regional director within Rothmans International Tobacco with particular responsibility for export marketing and sales, manufacturing and subsidiary/associated companies *within the* Middle East.

★

Mr Paul Janson has been appointed as managing director of HAWKEYE STUDIOS, part of the Michael Peters Group. Before joining Hawkeye, Mr Janson was with Optikos for 10 years as sales director.

★

Sir Ronald Halstead has been appointed to the board of *GESTETNER HOLDINGS* as a non-executive director. He is deputy chairman of the British Steel Corporation.

★

Mr M. H. Cade has been appointed a director of ALWEN HOUGH JOHNSON.

★

SOUTHERN COUNTIES GLASS has appointed **Mr David Perry** as director and general manager.

★

SOUTHERN COUNTIES FUELS has appointed two new directors: **Mr Norman Swaffer** becomes executive director, with particular responsibility for fuel oil and lubricants sales, and **Mr Martin Palmer**, who is also appointed an executive director.

★

Mr John Metselaar has been appointed to the board of E. C. de WITT AND CO, the holding company of De Witt International, as sales director.

★

Mr Peter McRae has been appointed chief executive and managing director of the newly-formed AMT, the company set up by the Allied Entertainments Group, Multiple Sound Distributors and Target International Pictures to acquire, *develop and* market home video material under the brand name Video Gems.

THE ARTS

Munich Festival/Max Loppert

Creating the sound world

Eight years ago the Munich Opera Festival gave the world première of Aribert Reimann's *Lear*. It proved to be a smash success of a kind new operas seldom enjoy: the work went round the German-speaking houses (I encountered it at Dusseldorf) and even as far afield as San Francisco, and was recorded. Thereafter Reimann kept himself to smaller-scale composition, which included the Strindberg chamber opera *The Ghost Sonata* (reviewed here after the 1984 Berlin Festival).

But the next big Reimann opera had been brewing, and it was for Munich that it had been reserved. *Troades* was the *Uraufführung* of this year's festival, in a staging involving several important revenants from the Munich *Lear* — Gerd Albrecht (who this time also helped the composer make the libretto) as conductor, Jean-Pierre Ponnelle as producer, and, in the long central role of Hecube, Helga Dernesch (Reimann's first Goneril).

I attended the second performance, which was offered with as much flair, mastery, and commitment as the first had evidently been, and which was cheered by the audience every bit as long and lustily. I had gone along, in truth, with expectations held low, having found the much-touted *Lear* a loud, violent, and musically barren piece of New-Brutalist theatrical efficiency, and *The Ghost Sonata*, though smaller and less showy, hardly more of a "real" opera.

Having to alter preconceived ideas in the face of unexpected actuality is always one of the happier duties of a critic's working round. *Troades*, an unbroken two-hour piece expertly pared down from Franz Werfel's 1913 *Nachdichtung* of the Euripides play, is not an epoch-making new operatic masterpiece. It finds no new routes of return to the basics of the medium; its match of sounds and forms to content might be termed an intelligent and sensitive accommodation in familiar territory rather than a venture into uncharted operatic waters (a comparison with Birtwistle's *Mask of Orpheus* at once defines the difference).

But if an opera is drama *determined* by music, and not just a play atmospherically "musicked," then it seems to me that *Troades*, unlike those earlier Reimann pieces, has an honest operatic existence and purpose; it inhabits its own sound-world, and the creation of that sound-world determines the whole dramatic movement.

Two possible reasons for this suggest themselves. The first is that *The Trojan Women*, perhaps the most painful and poignant of all the Euripides plays, is less a progressive dramatic unfolding than a "fixed" structure, a set of theme-and-variations on the hopelessness of the vanquished; its end — the razing of Troy, the departure of the enslaved women survivors — is implicit in its beginning. For Reimann's compositional mode of address (a mixture of serial and post-serial devices), this proves apt.

Helga Dernesche as Hecuba

The opera is a sort of huge rondo. A prelude with organ (a masterstroke) for the gods Poseidon and Athene (spoken roles) lays out the material then examined in distinct blocks: for Hecuba's grandly despairing finale the organ returns, to complete what has essentially been a mosaic of non-developmental froms.

The second is that Reimann has always shown a greater emotional response to women's voices — and *The Trojan Women*, framed by the announcements of the baritone herald and briefly interrupted by a character-tenor Menelaus, offers rich opportunities for the contrast and combination of various female timbres and operatic capacities. Its high points are marked by the strategically placed laments of Hecuba (dramatic contralto).

In between comes a set of interventions — a long monologue for Cassandra ("coloratura" mezzo) in which the wild predictions come spewing out in a line of fantastic culicued brilliance; a dignified *scena* for Andromache (soprano spinto in the Chrysothemis mould); and the argument of Helen, whose self-defence is limited in spiky soprano fireworks up into Queen of the Night range. The female chorus sings often in unison and in a moving vein of neo-tonal cantilena; the Chorus Leader (main spoken role) introduces yet another kind of female timbral contrast.

In *Troades* Reimann demonstrates, indeed, no lessened ability to plan exactly practical operatic schemes. The orchestra, without violins, often reduces *its accompaniment to a single* line; sound characteristics are assorted to particular characters in a manner not dissimilar to the single-instrument *obligato* writing in Tippett's "Trojan" opera. The motivic planning is clear. The pacing is extremely effective: it is a long sit, but but is in fact hard to discern: the spectator isn't conscious of flagging interest. All the roles are taxing, Hecube's outstandingly so, but all are rewarding to fine performers.

But there is more to the opera than deftly designed schemes. Of *Lear* Ronald Crichton wrote here that "because of the slight musical substance, tragedy dwindles to a bloody, melodramatic squabble about succession." Even a single encounter with *Troades* supplies a conviction that in the music both the tragedy and the epic proportions have at least been measured. It is a work one would like to hear and see again.

The Munich performance was highly accomplished. Ponnelle's set, a huge rock-faced temple gashed open in each wall surface, afforded a superbly vivid acting space. And though as producer he allowed himself a couple of familiar Bright Ideas — Cassandra out of the *Marat/Sade*, Helen in blonde wig and Pet Halmen's gold-wire corset as an unrepentant superbrat — the production was in general so brilliantly worked and lit, and so firmly supported by orchestra and chorus, that these embellishments could be forgiven.

The cast was without weakness. The leading women were Carmen Reppel (Andromache), the young Amrican Cyndia Seiden (Helen), and the noted German actress Carmen-Renate Köper. Doris Soffel's Cassandra was a *tour de force* of vocal virtuosity. And at the centre of it all Dernesch—handsome, dignified, vocally tireless, heroic alike in grief and proud anger—once again showed herself to be one of the very few great singing-actors on the international operatic stage.

Brief notes on two other festival shows. *La forza del destino*, in a production by Götz Friedrich new earlier this year, proved a remarkably intelligent attempt to place the profound fatalism and nihilism of the piece in a context of modern Absurd Theatre. The set is a fascinating higgledy-piggledy mix-up of church and military camp — untidy, infuriating, but full of purpose. The characters (apart from the dull Alvaro of Ermanno Mauro) were vivid as they seldom are in more conventional Verdi readings. Julia Varady (Leonora) and Kurt Moll (Father Superior), neither possessing the "right" Verdi voice, were both deeply moving; Bruno Pola's Melitone was trenchant. Giuseppe Sinopoli conducted, without either mannerism or great sweep.

Don Giovanni, in a rather ordinary "big house" production (but perhaps ordinary, textually *faithful accounts of this opera* are becoming rarities!) was notable for the tremendous success enjoyed by two Englishmen —Thomas Allen and Stafford Dean (taking over at short notice) as master and servant. The partnership is an old one, and here it worked brilliantly: indeed, after the shock had passed of seeing Mr Allen not as Peter Hall's dour, black-dressed bully but in full swash-buckling fig, I admired his Giovanni more than ever.

Television/Christopher Dunkley

Striking the right note

Picture the scene: as part of its Thatcherite marketing push, the BBC decides to sell *My Music* to the Americans and a bright young man (BYM) from *BBC Enterprises rises to his* feet in a smoke-filled room in New York. He is pitching to the cigar-chomping network boss (CCNB):

BYM: *It's not just a quiz show*, not just a musical series, but a musical quiz!

CCNB: Great! Kids mixing in with the band and hundreds of lasers, right? Masses of dry ice, plenty of bubble machines, lots of Madonna lookalikes dancing in their underwear for the blue-collar beer drinkers, yes?

BYM: Well not quite, no. There's an awfully pretty girl who helps the question-master and we have quite a few pictures of her face, but she never says anything, and she's sitting down. They're all sitting down. At desks. And the contestants are all men.

CCNB: All men? Every week?

BYM: Well, yes. The same four men every week.

CCNB: But they're four of your great British teenage gender-benders, right?

BYM: Not exactly, no. Ian Wallace and John Amis have been in music all their lives and Frank Muir and Denis Norden used to be top script writers. They're terrifically good at radio quiz shows. As it happens, all four of them are in their mid sixties.

CCNB: Mid sixties? You're kidding me . . . just a minute, *you've got Joan Collins as* questionmaster haven't you? Make that questionmistress.

BYM: No, the questionmaster's Steve Race. He's 65 too. He plays things on the piano that the others have to identify. Sometimes they sing a bit.

CCNB: And they all have fantastic voices, right?

BYM: Not all of them, no. Muir *and Norden are pretty well* tone deaf.

CCNB: But all four have musical encyclopaedias for brains, am I right or am I right? There's not a question that can stump them?

BYM: Well, they used to answer quite a few of the questions, but these days Steve Race tends to supply the answers as well as the questions. It's the little anecdotes the others tell that are so good.

CCNB: Let's see if I've got this straight. Every week you have the same five old-age pensioners sitting at desks in a studio. One tinkles on the piano, asks the questions, then gives the answers, and the others tell little anecdotes. Now and then you have a mute cutaway to a pretty *girl's face. Is that it?*

BYM: Well—

CCNB: It'll never replace Wheel of Fortune.

*

What a delight *Daylight Robbery* was in Wednesday's "ScreenPlay" slot on BBC2. Writer Rose Tremain gave her script all the properties of a good short story: the quality of allusion to provide background without the need for endless description, and vivid character delineation by an equally economic use of telling lines in the mouths of the pompous barrister, the Sloaney daughter, and the widowed Bea in her granny flat after a life in the colonies. The farcical climax, with Bea holding up the bank to claim her unpaid pension, was also worthy of the greatest short story writers.

Director Chris Goddard (with, I would guess, enormous help from film editor Kate Evans) had the wit to put the whole thing together with a light touch that added much to the spirit. Joan Hickson's imperceptible style of acting gave the final seal of quality to a wonderfully entertaining little gem. To appreciate the delicacy of Miss Hickson's acting you only had to have watched *BBC1's drama four days earlier, Only Yesterday*. Here all the members of the cast were—in an immortal phrase used by Beryl Reid — acting their knickers down. And didn't we know it.

Joan Hickson: Delicacy

*

Gardeners have dozens of magazines to choose from, so do fishermen, computer buffs, rock fans and enthusiasts of almost every description. Yet for the pastime which occupies more of the British public's time than anything else except work and sleep—television—the newsagents can offer little more than a couple of timetables: *Radio Times* and *TV Times*. *Stills magazine, now nearly six years* old, maintains a high quality of production and content but is much devoted to the cinema. *Channels* treats television *seriously* but is American and available only on subscription. *The Listener* reveals its true ethos in its title, and *Broadcast* is directed at the trade. There is just one television magazine which, like its counterparts in gardening, fishing and computing, takes the attitude that its subject is great fun and that its readers will have an insatiable appetite for arcane detail. It is called *Primetime*, is produced by a shoestring outfit called Wider Television Access, and edition No 11 has just appeared.

Primetime does not interest itself much in *Panorama* or *Jewel In The Crown*. Its true passion is the entertainment series which occupy most viewers most of the time: comedy, pop music, soap operas, police thrillers. The subject of the archetypal *Primetime* article would be *The Avengers*. Every episode would *be catalogued, with credits, and* the writer would put the series in its historical context, evaluate its main qualities, and interview the originating author or producer — just as the work of Ford might be covered by a movie magazine or that of Greene by a literary journal. The current issue (£2 from WTVA, 16 Newman Pas*sage, London, W1) concen*trates on science fiction, ranging from a fanzine piece about Daleks to an amazing essay by Neil Alsop rounding up every drama ever shown on television about life after a nuclear holocaust, from *The Twilight Zone* to *Threads*. For anyone interested in television as television (rather than television *as literature, television as* theatre, and so on) there is nothing like *Primetime*.

*

Making Waves, which started another run on BBC2 on Thursday, is one of those series which feel as though they have been produced out of a sense of duty rather than any fervent commitment to the subject; as though some department head somewhere had said "I suppose we really ought to have a series about boating, couldn't old Tony do it." Perhaps the production team are really all ardent sailing or water ski-ing enthusiasts, but that is not the impression com*ing off* the screen. Presenter Bob Langley looks as though he would be happier in a car than on a boat, and the grasshopper approach of last week's episode suggested a *nervousness* about attention span which would surely afflict only those without a true interest in the subject.

*

Many of the most irritating aspects of Britain coincide on television at about midnight. Thanks to the rates demanded by the unions for keeping the transmitters open, all channels close down. Mostly they finish by playing the national anthem. Some provide a nannying announcer to tell us to switch *our sets off and unplug them*. I eagerly await the day when television runs straight through the night like other utilities. The effect of extending transmission to 24 hours a day, like the effect of abandoning licensing laws, would be to take away that sense of something special which has to be caught and indulged to excess before it is *snatched away*.

Meanwhile, I frequently find myself watching Open University programmes. When they offer the sort of maths which consists entirely of Egyptian pictograms, or those intense sociology lecturers who are determined not to be seduced into looking pleasant for television, I am obliged to switch *off. But many of the pro*grammes from the arts and English courses are fascinating. Last Wednesday, for example, Roger Thompson devoted 25 minutes to a most enlightening comparison of Constable and Turner, artists so different that until you think carefully it is difficult to believe they were precise contemporaries.

As with so many programmes about painting, this one had the audacity to place the aesthetic sensibilities of the producer above those of the artist: again and again we were shown some bafflingly magnified detail of a canvas before tracking around to other bits and finally zooming out to see what the painter intended us to see: the whole canvas. It should be an absolute rule—quite unbreakable—that the entire painting be shown as the artist desired before the television producer is allowed to *indulge his own editorial pre*dilections. If Thompson was responsible he should be reprimanded, though what he had to say was certainly instructive and the programme as a whole very much better than nothing.

But roll on 24-hour television.

BBC Philharmonic/Albert Hall

Max Loppert

The BBC Philharmonic, under its recently appointed Chief Guest Conductor Bernhard Klee, is visiting London for two Prom concerts. Monday's was an attractive mixture of mainstream and bywater Austro-Germanic—*Mozart* and Brahms symphonies and, between them, Zemlinsky's six songs, Op. 13, on Maeterlinck poems.

Klee, always an authoritative orchestral director, gets particularly good playing from this orchestra—the lightness of touch and (apart from a few forgivable bumps in the closing moments of the Brahms Second) firmness of ensemble suggested the rewarding nature of their partnership. In neither the Mozart B major, K319, nor *the Brahms* was *there much ex*pressive phrasing—weightier string tone might have helped in the latter—nor did Klee summon in the listener strong feelings of surprise, or delighted fresh discovery. But the sound symphonic sense of both performances was securely conveyed.

Zemlinsky wrote his Maeterlinck song-settings in the period just before the 1914 war (for voice and piano first, then the orchestrated versions afterwards). Debussayan influence *could justifiably be suspected* but is in fact hard to discern: the six songs draw instead on an ample, beautiful vein of Austrian late-Romanticism (behind which the Wagner of *Tristan* is a permanent hovering presence).

In this performance the orchestral writing seemed more distinctive than the voice part (delicately and sensitively though this was delivered by Felicity Palmer) — webs of translucent Mahler-like chamber music, each strand exactly *placed and defined*. *The last* song shimmers with suggestive glints: for the rest, I found myself once again trying in vain to detect, in the music of so richly gifted a composer, a genuinely individual creative voice.

Carmen/Coliseum

Clement Crisp

Carmen was one of the icon-ballets of the 1940s, with the tragedy blazing through merciless editing *of Bizet's score*, and Roland Petit's stylised choreography ideally framed in Antoni Clavé's superlative design. Petit has kept the piece in the repertory of his companies, and many illustrious dancers have trodden in those impassioned steps of Jeanmaire and Petit as the damned, doomed lovers.

Now it has been acquired by London Festival Ballet, who on Monday proposed Alessandra Ferri as Carmen, Peter Schaufuss as Jose, a fair enough re-creation of the Clavé decor, and something rather too like a general rehearsal of the production. Scene changes were not slick enough, and the company — *save for Nicholas* Johnson's bright-cut bandit and Lucia Truglia's saucy cigarette girl—can sharpen the outlines of the dance with further experience.

But *Carmen* was nevertheless well and truly alive, thanks to its principals. Miss Ferri, returned to London after a season with American Ballet Theatre, has gained in technical force, and brought off Carmen's solos with brave impetuosity. Temperamentally she understands the role's sultriness and its taunting sexuality: the bed*room duet generated the right* sense of inevitability; the final *corrida* knew all the proper emotional blackness.

Mr Schaufuss' air of haunted decency was exact and true for Jose's dilemma: there was a fatalism about his playing that went straight to the heart of the drama. The ballet, in sum, is a fine addition to Festival's *repertory: its colours, both* emotional and decorative, are still vivid.

David Fenwick and Janet Steel in A Colder Climate

A Colder Climate/Royal Court

Michael Coveney

This is a raw, unfinished play by Karim Alrawi, a playwright decorated with awards perhaps a little before his time. It is set in the East End of London, a locale refracted through a roseate, distancing lens, populated by a list of representative characters all *dedicated to the author's* soft and optimistic conclusions.

We first meet old Joey on his allotment being gently ripped off by an Asian girl, *Sherifa, for an abortion fee*. Joey is an East End boxer comic whose pub is run for him by his daughter Marge. Marge is having an idyllic *affair with a black barman*, Tosh, who is roped in by Joey to fight for a shadey impresario to whom he is in debt. Marge's son, Tony, is falling in love *with Sherifa* and revealing a sensitive streak by nicking flowers in West Ham park.

No journalist needs reminding of the grimness of Wapping, any *more than* do the people who live there. Nonetheless, Mr Alwari's play is good at reiterating the deadness of the river before Tilbury, its con*tagious* and dispiriting greyness. Peter Hartwell's design reflects the eclipse of old knees-up Cockney neighbourliness, a grim tower block flying away above a disused railway shed façade. That façade is invaded by the pub and, at one point, a bathroom, where Tosh strips off after training and Marge scrubs his back while giving vent to sexual frustration.

That frustration, like so *much in the play, leads* nowhere. In the second act little Sherifa is all but forgotten until the last scene.

Joey falls out with Tony over *some vaguely sketched-in* allegations about dog-dealing and a cumbersomely inserted cock-fighting scene. The old boy is a *pathetic* Archie Rice figure, *well played by Ron Pember as a* saloon bar bore with an appalling line in old joke

Mr Pember apart, the production by Max Stafford-Clark and *Simon Curtis is curiously* muffled, often inaudible. Overlapping conversation, a technique demanding much skill, is more tiresome than illuminating *on this occasion. Cyril Nri is a* likeable noodle as Tosh and Ann Mitchell, an actress of great warmth and emotional power, flickers impressively to life when she *suddenly switches to* direct address. These moments, too few. stir the theatrical pot. The rest merely goes to it.

Arts Guide

Music/Monday. **Opera and Ballet**/Tuesday. **Theatre**/Wednesday. **Exhibitions**/Thursday. A selective guide to all the Arts appears each Friday.

Theatre

July 18-24

LONDON

The Normal Heart (Albery): Tom "Amadeus" Hulce is playing the crusading hero of Larry Kramer's hysterical melodrama for a three-month season, as public concern over the Aids epidemic increases. (836 3878 credit cards (CC) 379 6565).

La Cage Aux Folles (Palladium): George Hearn a welcome star alongside Denis Quilley in the transvestite show for all the family. Weak second act, less than vintage Jerry Herman score. The show has not travelled well from Broadway. (437 7373 (CC) 734 8961).

Blithe Spirit (Vaudeville): Susan Hampshire and Joanna van Gyseghem have now joined Simon Cadell in this enjoyable Coward revival. (836 9987).

Troilus and Cressida (Barbican): Provocative RSC production set vaguely in the Crimean War with Juliet Stevenson refusing to play Cressida false but riveting just the same. The bumptious 1950s Merry Wives continues in repertoire. (628 8795).

Dalliance (Lyttelton): Tom Stoppard's new version of Schnitzler's Liebelei is a crushing disappointment only partly redeemed by Brenda Blethyn as the ruined working girl. A theatricalised travesty of the work adds to the confusion of middle-aged actors playing boyish dragoons in Peter Wood's numbingly respectable production. (928 2252).

Lend Me A Tenor (Globe): Fresh and inventive operatic farce by new American author Ken Ludwig set in Cleveland, Ohio in 1934. Dennis Lawson and Jan Francis lead an energetic company in mistaken identity romp, while Verdi's Otello carries on regardless. (437 1592)

When We Are Married (Whitehall): Matchless comic playing from an all star cast in Priestley's comic warhouse about silver wedding anniversaries undermined by an inconvenient revelation. Bill Fraser is a drunken Falstaffian photographer and the couples are led by Timothy West and Prunella Scales. The 1930 theatre has been beautifully renovated. (930 7765).

Noises Off (Savoy): The funniest play for years in London, now with an improved third act. Michael Blakemore's brilliant direction of backstage shenanigans on tour with a third-rate farce is a key factor. (836 8888).

42nd Street (Drury Lane): No British equivalent has been found for New York's Jerry Orbach, but David Merrick's tap-dancing extravaganza has been rapturously received. (836 8108).

Lennon (Astoria): A not too critical celebration of the life and music of John Lennon that is enjoyable especially for the musical resourcefulness of the cast and Mark McGann's Lennon look-and-sound-alike. (734 4287).

NEW YORK

Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T.S. Elliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2626).

I'm Not Rappaport (Booth): The Tony's best play of 1986 won on the strength of its word-of-mouth popularity for the two oldsters on Central Park benches who bicker uproariously about life past, present and future, with a funny plot to match. (239 6200).

CHICAGO

Pump Boys and Dinettes (Apollo Center): Facetious look at country music and down-home country life with a good beat and some memorable songs, especially one played on kitchen utensils has proved to be a durable Chicago hit. (935 6100).

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Price-fixing in microchips

BY THE end of this week the US expects to have clinched a deal with Japan to bring under government control the world price of microchips, the key component in electronic equipment.

What started as a Silicon Valley protest about alleged dumping of Japanese chips on the US market will have ended—if the final negotiations in Washington succeed — with perhaps the most comprehensive jurisdiction over a world market ever achieved by a single country.

That, at least, is the implied intention of the draft agreement which leaked out last weekend. Whether the agreement will work and rescue US chipmakers from the consequences of a price war that they helped to provoke is quite another matter.

Not even the combined bureaucratic might of Japan's Ministry of International Trade and Industry and the US Department of Commerce will be enough to police a market worth some $20bn annually. The US companies are sceptical and the smaller European producers are pressing ahead with their own anti-dumping complaint.

Japan has undertaken to monitor the export prices of eight types of semiconductors, including most so-called "commodity" chips, sold to the US. It is being asked to do the same for its exports to other markets, to prevent US customers moving offshore to enjoy lower prices elsewhere. At the same time US chip manufacturers will be helped by Tokyo to double their share of the $9bn Japanese market to more than 20 per cent in the next five years. In return, two anti-dumping suits (one filed by the US Administration) are being suspended.

Political solution

As with other trade restraints against Japan, this is a political solution to an industrial problem. The big difference here is that one bilateral deal between the US and Japan, which together account for 90 per cent of the microchip market, is sufficient to monitor global trade, against the interests of customers worldwide—and not least in Europe—who benefit from the falling price of chips.

The industrial problem is familiar enough. The Americans invented the chip, and for many years were in the vanguard of development. Silicon Valley aimed for new markets and new applications; its companies remained largely independent, only to be trapped by problems of overcapacity, plummeting prices, yet expensive development capital.

On the other side of the Pacific, the Japanese were happy to acquire the technology and apply their production skills in vertically-integrated companies, borrowing cheaply, to seize the mass markets as they became established and go on to fund further development.

US producers have amassed strong evidence of Japanese dumping—evidence that imports are priced below "fair value," defined in the General Agreement on Tariffs and Trade as the cost of production plus reasonable selling cost and profit (8 per cent in US law).

The Administration took up the case, doubtless encouraged by strong anti-Japanese feeling in the Congress. Almost certainly, too, the White House has the strategic view that America's technological lead must be preserved from the vagaries of the famously volatile semiconductor market.

Its explicit justification for a diplomatic solution is that anti-dumping procedures are too long-winded; and it is true that development is so rapid in this industry that a product may be obsolete by the time dumping is proved.

Extra revenue

But if old-fashioned anti-dumping measures do not work, the exchange rate will. Since the US opened its negotiations with Japan, the yen has appreciated by about 40 per cent against the dollar, a sufficient disincentive to any Japanese exporter to subsidise his selling price in a market as sensitive as that for semiconductors.

From one point of view (and assuming there are no secret clauses) the proposed agreement on chip prices could be defended as a perfectly respectable undertaking by one government to another, consistent with the Gatt, to prevent dumping before it occurs and to consult quickly if it does occur. But if—or rather, when—the system visibly fails to work, what then?

The danger with the agreement is that it could lead to a progressive cartellisation of the microchip business as has already happened with textiles and steel. It could have the effect of delaying necessary structural adjustment among US producers. By imposing a floor price it could give the Japanese extra revenue with which to improve their competitive position in the next generation of products; much the same has already happened in cars. The best hope is that the rapid advances of technology will make any attempt to regulate the industry by bureaucratic controls completely impracticable.

Good sense on council spending

THE THATCHER Government yesterday took the wind out of the Opposition sails by presenting to Parliament the first sensible rate support grant statement since coming to office in 1979.

It is important, in welcoming the realistic approach which the Government has belatedly decided to adopt for local authority expenditure, to recognise that credit for unravelling the disruptive tangle of initiatives of recent years lies not with present or recent Environment Secretaries but with Treasury ministers.

It was the political good luck of Mr Nicholas Ridley, the present Environment Secretary, to be the first incumbent of that office in recent times to be able to make a rate support grant statement to the Commons without being pelted with the House equivalent of buns and rotten tomatoes. But it was Mr Nigel Lawson, the Chancellor, who decided last year that the repeated back-firing of attempts to impose central controls on locally elected councils was causing more political upset, particularly among Conservative supporters, than they were worth, while also making a regular nonsense of his public expenditure white papers.

Expenditure facts

The return to good sense began last year with the abandoning of the system of council spending targets and penalties which had become perverse to the point of being unworkable. Yesterday's announcement completes the move by making a once-for-all decision to base forecasts not on wishful thinking but on expenditure facts. So this year's local authority budgets will be regarded as the base expenditure for 1987-88 and will be maintained in real terms by being raised in line with the Treasury's 3½ per cent forecast of inflation for the next financial year. In addition the Government has decided to halt the switch of burden from taxpayer to ratepayer and will maintain the proportion of expenditure funded through central grants at this year's level of just over 46 per cent.

The share-out of the grant cake between city and rural areas will also be held roughly constant next year. In addition the Government will halt the practice of making every council's level of grant income wholly unpredictable by recycling back into the system all grant withdrawn as a penalty for spending above the Government's assessed benchmarks. Grant withdrawn will be a gain to the Exchequer—and on the the basis of yesterday's new realism this gain should be exceeding small.

So, after years of creating havoc in town hall finances and weakening local accountability by breaking the link between expenditure rises and rate rises, the Government has chosen to restore the link and introduce much needed stability. All rate rises should be very low or nil next spring—perhaps the last rating season before the election. Most important, any high rate rises will be the clear result of increased council expenditure rather than of incomprehensible government machinations — notwithstanding the fact that local authority inflation is higher than general inflation in the economy because of the disproportionate influence of pay.

There is a price to be paid, however, for putting past errors to rights. The cash price involves accepting that local authority spending in 1987-88 in England, Wales and Scotland will be £3.4bn higher than indicated in the latest public spending white paper. This uses up more than half of the Treasury's contingency reserve—although it does not in itself add to public spending totals. The political price is the acknowledgement that councils which have opposed the Government's policies throughout and increased expenditure and rate regardless come out best (except the handful which fall under the unsatisfactory central interference of rate-capping) and those which have cut and trimmed fare worst.

But for the sake of restoring stability and some degree of local financial accountability to local government, these prices are worth paying.

UK DISCOUNT HOUSES

When the walls come down

By David Lascelles, Banking Correspondent

ASIDE from belonging to one of the most obscure species in the City of London's financial menagerie, Britain's discount houses must also have seemed the closest of any to extinction in recent years.

Their number has dropped from 13 to only eight through merger, and of those, four have been taken over by much larger financial groups in the past two years. In today's fast-changing world, they seem fragile, even anachronistic.

Yesterday's decision by Union Discount, the second largest, to pull out of the gilt-edged market, reinforces that impression.

But reports of their demise may turn out to be highly exaggerated. Only last month, the Midland Bank unveiled plans which would entail the creation of a new discount house, the first in recent memory. Mr Nicholas Chamberlen, the new chairman of the Discount Market Association, the houses' trade group, expects there to be more rather than fewer members when he steps down after his two-year term in office in 1988.

"The rationalisation of this market has finished," he says. The discount house of which he is chairman, Clive Discount, was itself bought by Prudential-Bache, the US investment banking concern, after making a £810,000 loss last year.

If the species revives, though, it will be in a greatly different form from the top-hatted City gent image of the past. The new breed of discount houses will be high-powered dealers attuned to the post-Big Bang era.

The discount houses traditionally act as dealers in the money markets, trading bills and other short-term instruments, and generally providing liquidity for the banking system. The men from the discount houses (it is a male world) pride themselves on their readiness to take risks even if this means their profits are among the least predictable in the City. "Taking a punt" is one of their favourite phrases.

As well as oiling the wheels of the financial system, this gregarious, well-tailored breed also runs some of the City's most gossipy lunchtables, though the port probably does fewer rounds these days as the business' traditionally gentlemanly traditions have given way to modern-day realities.

More to the point, the houses also act as the link between the Bank of England and the UK banking system, which is why any change in their role is of such widespread interest in the City. Whenever the Bank supplies reserves to the banks, or withdraws them, it does so by buying or selling bills from the discount houses, which act as disinterested intermediaries. The theory is that this makes for truer markets than if the Bank dealt directly with banks.

The houses' role is further enhanced by the fact that the Bank conducts its monetary operations and influences interest rates through the bill market (unlike the Federal Reserve in the US which uses the bond market). So in every sense, the discount houses are the cogs at the heart of the City financial machine. Because of this, the Bank has been keen to ensure their survival, which means they have traditionally earned an easy living. But by the same token, they are now vulnerable to any change in policy.

The key question about the future of the discount market is the extent to which the Bank intends to alter these arrangements now that other institutions—mainly UK and foreign banks—want to become official dealers in the short term markets, too. If some big banks had their way, the Bank would do away with the discount houses altogether.

So far it has allowed banks and other institutions to buy discount houses (the first instance was when Citicorp of the US bought Seccombe's in 1984) though it insists that they retain their identity and be run as arm's length subsidiaries. But with its policy of, in the words of a senior Bank official, "One miracle at a time," it has said that major changes to the discount market will have to wait until two years after Big Bang.

The Bank's money market division, headed by Mr Tony Coleby, is anxious to give the discount houses time to adapt to all these changes, so the closed shop will be opened up at a pace that is evolutionary rather than revolutionary. Even so, it is already clear what is likely to happen.

As part of the Big Bang changes, new financial groups are being allowed to become primary dealers in the gilt-edged market, which is the medium- to long-term market in government securities, usually with maturities of a year or more. This will give them direct access to the Bank of England's gilts window as market-makers in government debt.

These institutions naturally wish to have access to the Bank's discount window as well in order to trade in the short term market. Aside from the logic (it is also how things are done on Wall Street), there is a question of fairness: discount houses are allowed to become gilt-edged market-makers, but gilt-edged market makers are not allowed to become discount houses. Under Bank of England regulations, discount houses may also run larger books for each £1 of capital than the gilt-edged dealers—more instances in many people's view of the favoured treatment too long enjoyed by the houses.

Mr Gordon Pepper of Greenwell Montagu, the investment banking arm of the Midland Bank which is laying plans for the discount market, has described the separation of the two markets as "quite extraordinary." But by launching the venture now he hopes to have built up a sufficient track record to gain official recognition from the Bank once the two-year waiting period is over.

And he is not alone. Although only Midland has announced firm plans, other clearing banks and a number of merchant banks have made similar approaches to the Bank, and have begun to deal in the short-term markets to gain experience.

If all goes to plan, in 1988 these banks will become official discount houses. But even then the Bank will probably insist that banks conduct these operations through separate subsidiaries to limit damage from loss and prevent conflicts of interest. The Bank's ability to control the market should also be greater if the discount houses are a coherent, clearly defined group.

All these upheavals come as no surprise to the discount houses. They have known for years that they lead a privileged existence, and the more far-sighted of them have been preparing for change since the early 1980s. "We have believed since 1981 that we had to survive on a genuine basis and not just because the Bank of England was there," says David White, the managing director of Cater Allen, which has proved to be one of the most go-ahead houses.

Their strategies fall into two broad categories. One is to deploy their skills in the money markets in order to take advantage of Big Bang and to expand their dealing operations. The other is to diversify into new lines of business.

Gerrard & National, the largest of them, has just raised £22m in a first rights issue to boost its capital. The fact that it had a rights issue at all is a sign of change: the Bank of England had previously discouraged such a step for fear that Gerrard would become too dominant in the discount market. Most of that money will go to capitalise Gerrard's new gilt-edged market-making business.

Mr Roger Gibbs, the chairman, believes that even though the discount houses are tiny compared with some of the giant investment banking operations now being assembled by the clearing banks (Gerrard has capital of about £125m compared to £300m at NatWest Investment Bank), they are better placed to cope with post-Big Bang than many larger institutions.

"It's not a culture shock for us to make markets in gilts. We're natural risk-takers. But a lot of the others are not," he says.

But only one other independent house—Cater Allen—plans to be a gilt-edged market-maker. Union has now decided that the obligation to make prices in government stock in good times as well as bad will be too burdensome—a view with which many other would-be gilt-edged market-makers might be secretly inclined to agree in light of all the predictions of a bloodbath that have been made.

"People just don't realise how much capital it takes to make markets," said Mr Graeme Gilchrist, Union's managing director, yesterday.

The discount houses' diversification efforts have also begun to bear fruit, usually as adjuncts to existing businesses. They include leasing and futures (Union Discount), commodities and futures (Gerrard), insurance and fund management (Cater).

Strategy is a different matter at the discount houses which have been absorbed by larger groups.

Alexanders, now part of the Mercantile House securities group, has become the money market component of the ambitious investment banking business being assembled by Mr John Barkshire, its chairman. As such it sits in alongside the gilt-edged market making arm, and Laing and Cruickshank, the stockbroker also acquired by Mercantile.

Although Alexanders is a separate company, its traders all sit in the main dealing room which handles the whole spectrum of debt and money market instruments. Such operations emphasise the logic of eventually doing away with the distinction between the discount market and the rest of the bond market. "Thinking of yourself as a discount house is really an obstacle if you want to succeed," says Mr Jeremy Hardie, the chairman of the new holding company.

Similarly at Clive, the discount house is being transformed into the money market end of the London dealing operation of Pru-Bache, which includes a gilt-edged market maker and a stockbroking business, as well as international securities. The new integrated operation, in which Clive will still nominally be a separate company, is due to be completed by September and will occupy new quarters in Devonshire Square.

The other two houses, Seccombe (owned by Citicorp) and Quin Cope (Banque Belge) are seen as no more than entry tickets to the discount market for their banking parents.

The discount houses that have joined larger groups are certain to be the first to lose their identities once the Bank of England ceases to insist on separate incorporation. Already their activities have been integrated into their parents' where this is possible without conflicts of interest, and in this sense their future is sealed.

The independents face much more challenging times since they will have to stand on their own two feet in extremely competitive markets against vastly stronger rivals. They intend to do this by using the wits that have stood them in good stead in the past. "We think it's rather fun to have the walls knocked down," says Mr White of Caters, which has also had a recent rights issue (£18m) to fortify itself.

But their fate will, in the end, be only a detail in the overall reshaping of the UK markets, and the Bank of England's method of dealing with them.

....and then there were eight

The discount houses and their status

Gerrard & National	Independent
Union Discount	Independent
Cater Allen	Independent
Alexanders	Acquired by Mercantile House. Merged with Jessel Toynbee
Clive Discount	Acquired by Prudential Bache
King & Shaxson	Merged with Smith St. Aubyn - Independent
Seccombe Marshall & Campion	Acquired by Citicorp
Quin Cope	Acquired by Banque Belge


Roger Gibbs


David White

Men and Matters

Chirac plays musical chairs

Edouard Balladur says that drawing up the list of the new chairmen of French state groups due to be privatised has been the "least agreeable" task he has had to undertake since becoming minister of finance (with responsibilities for the economy and the privatisation programme) four months ago.

The conservative government of Prime Minister Jacques Chirac, is due to appoint the chairmen of the 24 largest French state banks and nationalised industrial groups at a cabinet meeting today.

The list is thought to contain some big surprises like the expected replacement of Georges Pebereau, head of the CGE electronics and telecommunications group, who recently negotiated a major agreement with ITT.

That is considered the more surprising as Balladur was the head of a CGE subsidiary himself before being appointed to ministerial rank.

While political considerations have inevitably prevailed in the appointment of some of the chairmen, the government has made a major effort to show that it has acted fairly in the selection of candidates.

Chirac claims they were selected on grounds of merit and competence. Balladur went further yesterday to try to demonstrate the government's pragmatic approach to this highly emotional issue.

He said that while half the chairmen were being changed by the new government, the Socialists, in 1982, had replaced all but two of the nationalised groups' chairmen. He also suggested that the government was not made up of "barbarians" and that chairmen due to be replaced would not be put on the dole.

Moreover, he said, wherever possible the government had sought to favour internal promotion, picking new chairmen from inside company ranks.

That seems to be the case with CGE where Pierre Suard, the current vice president of the CGE Alcatel telecommunications subsidiary, is expected to replace Pebereau; and at the Paribas bank where Jean-Yves Haberer is expected to be replaced by Michel Francois-Poncet, a friend of Chairac, who has worked at Paribas for the past 25 years.

Among outsiders expected to take over the helm of major state groups is Renaud de la Geniere, the former governor of the Banque de France, as chairman of the Suez Group.

Balladur claims that some changes were necessary since many of the groups nationalised in 1982 were not in as poor a shape then as the Left had made out . . . and their subsequent recovery was not as brilliant as some have suggested.

And Balladur confirmed that chauvinism is not dead in France. Answering a question, he said that the idea of a foreign personality being appointed at the head of a French group about to be privatised had never crossed his mind.


"I'm an usher — do I put the PM on the bridegroom's side or the bride's?"

Nylex man

Alan Jackson, managing director of BTR Nylex, the quoted Australian subsidiary of BTR, is one of nature's enthusiasts. A short, stocky, bespectacled man of 50, he bubbles over with excitement as he describes his plans for an assault on the Far Eastern plastics markets.

It is a quality which has served him well in his nine years at the top of the Australian company, where he has gained a reputation for turning round problem acquisitions.

Jackson, who is in London this week to promote BTR Nylex's listing on the London Stock Market, has been tipped as a possible successor to Sir Owen Green, BTR's chairman, when he steps down as chief executive of the group, perhaps in the coming year.

An accountant by training, Jackson comes across as more of a nuts and bolts industrialist—and it is clearly an image which pleases him. "People mistake me, in plants, for an engineer," he says jovially.

On leaving school in Australia in 1952, he joined Mather & Platt, which was involved in pump and machinery manufacture, and gradually worked his way up to become managing director. He left in 1977 to become managing director of Hopkins Odlum (now BTR Nylex).

Jackson's biggest challenge to date has been last year's acquisition of Nylex — both because of its size and because it took the Australian company into major new plastics areas.

Nylex was his equivalent of British BTR's ambitious and successful takeover bid for Thomas Tilling. Major rationalisation followed, but also, Jackson says, a restoration of the Nylex management's belief in itself.

Though the Australian business has a large measure of autonomy from BTR, Jackson clearly shares the same management values. "Our philosophy is to delegate authority to our operations," he says, with relish. "Nylex, for example, had a large corporate centre which we scrapped on day one."

It could almost be Sir Owen Green talking. . . .

Valuable news

Fleet Street loves a legend, and Viennese-born Alfred Geiringer provided one right at the start of his 50-year career in journalism.

As the Reuters cub reporter in Vienna he watched the German army march into the city in 1937. He helped keep a telephone line to London open for a whole week reporting the scene.

Now, at 75, Geiringer made his biggest career decision. He has sold his private news wire network called Universal News Services to the Press Association for a price undisclosed, but thought to be around £4m.

PA, which is a co-operative news service owned by the British provincial newspapers, will only say that the price it has paid is well within its development reserve of £4.6m.

Since Geiringer founded UNS 26 years ago, he has persuaded most industrial companies and commercial organisations including the Confederation of British Industry and the trades unions, to disseminate their news releases over his wires. He achieved a break-through when government ministries began to use the service—finding it a faster conduit to newspapers and the radio and TV services than their own distribution systems.

Recently he has helped pioneer electronic news handling so that local papers can receive packages of items concerning their areas on television monitor screens.

Observer

ROYAL MARRIAGE DAY

And so to wed, 1986-style

By Christopher Parkes

GEOFF and Carol Oldfield, wearing full nuptial fig and diving gear, sealed their relationship under water on April 16. Today, Prince Andrew and Sarah Ferguson will be married too, albeit in surroundings and style far removed from the deep end of Ellesmere Port municipal swimming baths.

In common with most of the 400,000 couples legally paired off in the UK each year, they doubtless sought in their own ways to make the wedding an occasion to remember for life. Geoff and Carol had an advantage in that they had pretty much a free choice as well as an amphibious officiator. Still, although it is not clear how he performs in a wet suit, the Archbishop of Canterbury is not your average vicar.

There is never any shortage of free familial and friendly tips on how best to make a memorable marriage. And then there are the professionals who offer any amount of advice and accoutrements at a price.

London's Heather Jenner marriage bureau, which has been match-making since 1939, is expecting a heartening lift in the coming weeks as the romantic backwash of the royal wedding sweeps over its subscribers. It enjoyed a similar surge after the marriage of Prince Charles.

"We are expecting quite a few engagements among our younger people who will tend to identify with the royal couple," the bureau says proprietorially. Grand occasions apart, the business seems to be a seasonal affair, peaking after holiday periods such as Christmas when single people are most fed up with being alone. Claiming a "very high" success rate (and quite a flurry of American gentlemen attracted by its regular advertisement in the FT) the bureau charges £100 (plus VAT) a head for a two-year registration and claims £140 from each partner on marriage.

Setting aside the courtship costs which are blurred by style (the Roxy or the Royal Opera House, *magret de canard* or a Wimpy) and duration of the proceedings, the heavy, short-term cash outflow first strikes the partners-to-be and their families with the engagement and the opening of the "bottom drawer."

Wedding and Home magazine's latest survey of 1,700 couples showed that the average engagement ring cost a little over £230 in 1985, some 23 per cent more than in the previous year.

Industry research shows the diamond is clearly the favourite stone. Two-thirds of all marriages are provisionally sealed with a new ring containing this stone. Up to 10 per cent of fiancees are fobbed off with second-hand sparklers, and—of interest to the mean-minded—the diamond content of the average British engagement ring is a measly 0.12 carats.

Still, the heart of the British male does not reside for ever in his back pocket. Sales of post-marital "engagement rings," often bought because the original is considered too modest, are estimated to amount to as much as two-thirds of the pre-marriage trade.

Wedding and Home calculates that the average cost of getting married last year—including engagement, the day itself, and the honeymoon—increased by almost 32 per cent to £3,394. The typical new house cost £23,500 and expeditions into High Street furnishing departments added more than £4,000 to the total.

However, as the cases of Geoff and Carol and Andy and Fergie demonstrate, terms such as "average" are not applicable to the most memorable day.

There are any number of ways of ensuring that the memories stay fresh. Assuming accommodation and basic domestic necessities are already to hand, the knot-tying process can be expedited for less than £50 in official fees and bus fares. The FT's own Index-linked Love and Marriage Expenditure Trends survey (Ill-met), suggests that if the reception is limited to ham rolls and bitter in the pub, and the honeymoon to an afternoon walk in the park, the thrifty can be home and dry with change from £75.

The breadline scenario is, however, only theory. Extravagance is a natural concomitant of weddings. Guest lists have an extraordinarily high coefficient of expansion. This tends to knock on into the wedding budget of all but the most stony-hearted father: the methods champenoise on the provisional menu is magically upgraded to Laurent Perrier and, pumpkin-like, the family Granada becomes a white Rolls-Royce—even a carriage and four.

Exploiting this phenomenon offers wide and lucrative opportunities for the growing school of marriage choreographers and co-ordinators who, often in rose-tinted language, offer to help make wedding day dreams come true by doing most of the leg work and leaving mother free to concentrate on worrying.

Getting Married, based in North London, offers a typical range of services. It boasts a grand old Daimler, reputedly with at least one careful owner in King George V, bakers who will provide a towering cake complete with working fountain, and offers trumpet fanfares in church, bands, horse-drawn carriages, discos, marquees and riverboats.

Although Jeremy Ryan, proprietor, describes his basic business as "outdoor catering and photography," the range of extras which make the day takes his bill for 100-120 guests to between £3,000 and £5,000.

He also enjoys a special advantage from his position close to a large and prosperous Greek Cypriot community which favours big weddings with guest lists of up to 500. The traditional nuptial dance—*O choros tis nifis ke tou ghambrou*—where guests often pin cash gifts to the bride's dress, encourages a generous hand with the invitations. The disadvantage, Mr Ryan says, is that there is too often an uncle present with connections in the wine trade which plays havoc with drinks sales.

The indigenous population also has its own payback system—the wedding list—a more formal and marginally more subtle institution than the money dance. The intended tour their favourite stores and draw up lists of the presents they would most like to receive. The process reduces the risk of an over-supply of crocheted place mats and cheese boards, and often seems, to judge by some of the prices, to ensure that those invited recognise and acknowledge in kind the privilege accorded them.

The heavy labour requirement has forced some stores to stop handling the lists. Selfridges in Oxford Street, for example, no longer provides the service. But the practice is staging a comeback as retailers exploit the capacity of their computerised selling systems.

Harrods, for example, reinstated its bridal registry last year after a gap of about 12 years.

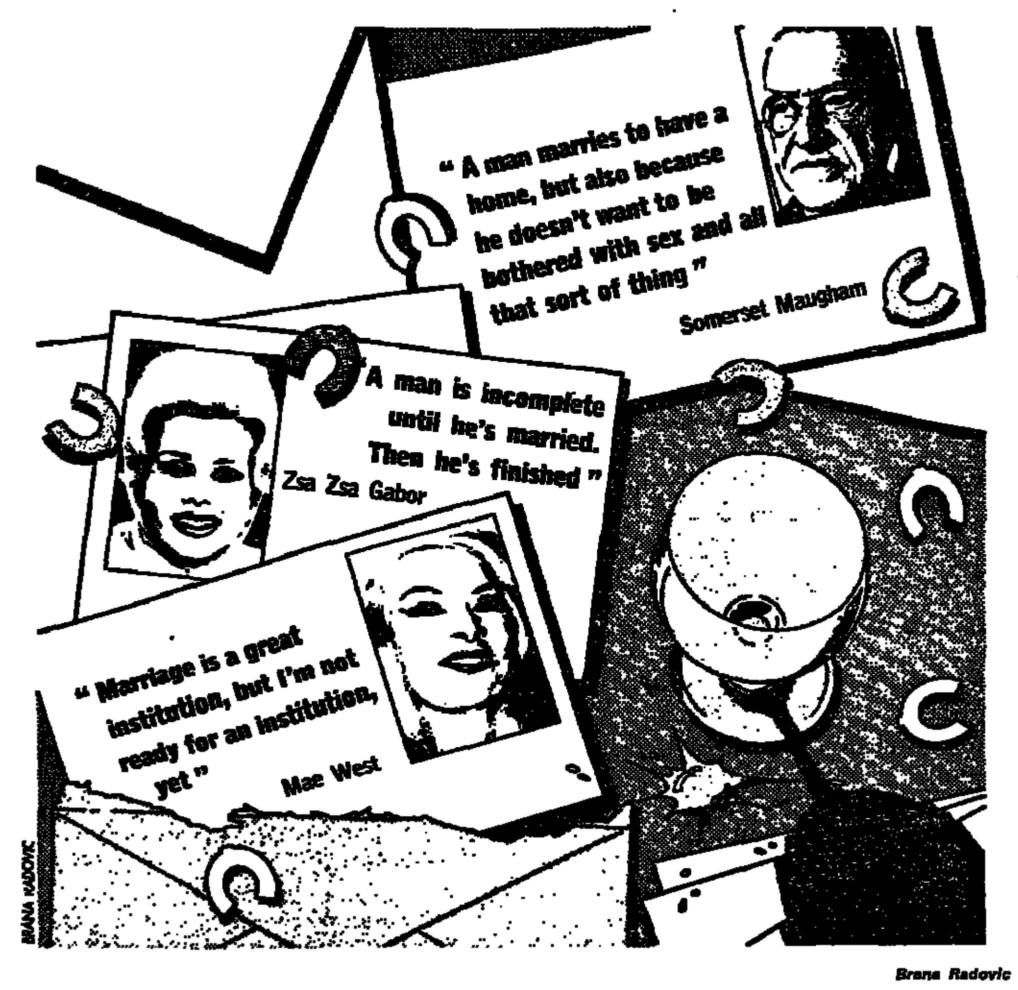
Tradition still exerts a strong hold. Most favoured presents are dinner services and crystal.

However, china breaks and goes out of fashion. For most the vital memory trigger is the photograph (upwards of £85 for a fair set of prints) or video (two hours for £200 to £300) showing the couple as they were on the day when everything was perfect.

Props play an essential role. The trend of the eighties is for newlyweds to be pictured driving off to their bright new future behind a horse.

At Glanmire Farm in Epsom, Maureen Houston is reviewing her daily hire charges. At £200 for a wedding carriage and pair with a groom and coachman thrown in, against £300 and more quoted by others, they seem relatively low. "A lot of people nowadays want us to go north of the Thames," she complains. "It's not really worth it to spend half a day in a traffic jam."

Hardier romantics wishing to avert such inconvenience and expense can always go to Dial-a-Bike in SW1 to hire a bicycle made for two at a mere £36. For those seeking to take the plunge à la Oldfield, Amphibian Sports in Crystal Palace offers a brace of frogperson's outfits for £50, all in.



Brana Radovic

The state of the union

- The average age for a couple marrying for the first time last year was 24.7 years for men and 22.6 years for women — the highest for 30 years.
- The Central Statistical Office's 1986 edition of Social Trends (HMSO, £29.95) also highlights the increase in remarriages which followed implementation of the Divorce Reform Act in 1971. In the following five years this raised the proportion of weddings where one or both partners had been married from 20 to 31 per cent.
- The annual total of divorces has been holding steady at around 160,000 since 1980.
- The marriage break-up rate is one in three, with adultery the main reason for men seeking divorce. Women most often cite "behaviour."
- The annual tally of marriages in the UK has been steady at around 400,000 for more than 20 years. However, the components of the total have altered considerably.
- In 1984, for example, the number of marriages between batchelors and spinsters was 30 per cent lower than in 1971, and accounted for 259,000 of the total. Last year saw a further sharp drop in teenage weddings, a trend which took off in the 1970's.

Lombard

A test case for Mr Baker

By MICHAEL PROWSE

MR Kenneth Baker, Britain's genial new Education Secretary, smiles a lot and has a nice handshake. Does he also know the answer to the following question: who are the least deserving university students in the UK? If Mr Baker is stumped, he should wing a memo to Sir Peter Swinnerton-Dyer, the chairman of his University Grants Committee—the body responsible for doling out public money to colleges. The memo need only ask which institution's grant is being cut the most. The answer will be Birkbeck College: last year it got £7.7m; this year Sir Peter is telling London University it only deserves £6.2m. The cut of 21 per cent could eventually cause the college's closure.

Why is Birkbeck particularly undeserving? Easy: 92 per cent of its students have full-time jobs. They study in the evening and contribute to gdp during the day-time. This has two disadvantages. The overall cost to the economy of a Birkbeck education is only about a third of that at a normal college. Worse, it encourages the disgraceful notion that students can be productive. If the concept of combining work and study were to catch on, the whole edifice of "full-time" further education might come crashing down.

Birkbeck also needs a severe squeeze as a punishment for its perverse attempt to cater for mature students. A man of 40 has no business saying be wants to study for a degree: the right age to be a student, as anybody at the Education Department can tell Mr Baker, is 18 to 21. If you miss that opportunity, bad luck and good riddance. All this modern talk about needing doses of education throughout your working life is pure balderdash. Everybody knows that the structure of the economy is set in stone: demands on the workforce never change. Once educated, always educated: that should be Mr Baker's motto.

Another obvious reason why Birkbeck students are undeserving is that they pay fees. Imagine that. No self-respecting student should pay a penny towards his education—that's official policy. As Sir Peter would doubtless be happy to explain, proper students—those aged 18 to 21 without jobs—not only have fees waived, they also get a grant to cover living expenses. Birkbeck's earners do not even get tax relief on their fees. Mr Baker must realise that, unless this curious college is drummed out of existence, the notion of "paying your way" might catch on.

What is more, as Sir Peter argued in a recent letter to The Times, the Government must be careful not to accord Londoners preferential treatment. London already has the Royal Opera, the Old Bailey and Nelson's Column: how unjust for it also to enjoy the only college specialising in face-to-face further education for the fully employed. With luck, the big cut in Birkbeck's grant will force London University to treat mature, working students properly: as an unimportant fringe commodity to be parcelled out to the other colleges, which concentrate on educating real students.

The comforting thing for Mr Baker is that by cracking down on Birkbeck, he can strike a sizable blow at the whole of "part-time" further education in Britain. Birkbeck is to this sector what Sainsbury and Tesco are to food retailing: it provided 45 per cent of all part-time first degree places for entrants to English universities in 1984-85 and, in the subjects it offers, 74 per cent of places. The quality is high too. Birkbeck graduates, despite the burden of full-time jobs, achieved a higher proportion of "firsts" in 1984 than any other London college, bar Imperial. A sign, surely, that Birkbeck's staff have been misusing public money and of the dangers of mixing work and study.

It is reassuring to know that, under the careful stewardship of Mr Baker and Sir Peter, the UK university system is being encouraged to adapt to changing circumstances and demands. A sharp cut in Birkbeck's budget is surely the ideal way to demonstrate the Government's commitment to adult education and to hard-working mature students who strive to help themselves.

Letters to the Editor

College of the Air

From Dr M. Cross

Sir, — Over the past few days we have heard a few cries of "foul" concerning the creation of a College of the Air announced by Lord Young. Within these cries were a number which predicted that this move was the beginning of the slide into the privatisation of education and training.

If the teaching community does not respond to the requirement for continuing education and training under circumstances that are deemed cost-effective by industry, there will be a *development of industrially operated institutions.* These institutions will range from classrooms to dispersed computer networks. The growth of the "corporate classroom" will challenge higher education *and training* to clarify and reaffirm their objectives. It is vital that both state and corporate education and training develop in unison. Their joint development will allow the transfer of methods and techniques between both sectors, eg, the use of technological training aids, the ways of scheduling courses, understanding the process of learning, the use of evaluation techniques, etc.

If the developments mentioned are to proceed, it is important that the many current initiatives are strategically co-ordinated at national level. I would therefore propose that a strategic council for education and training development is established by the Manpower Services Commission, the Departments of Education and Science, Employment, and Trade and Industry.

The Council would assess the UK's emerging educational and training needs. The focus would be on training needs: retraining displaced workers, training the disadvantaged and illiterate, upgrading scientific *and technological training* co-ordinated with high tech projections and natural resource development. Educational needs must be evaluated in the context of lifelong learning with training required at periodic intervals as well as increased opportunities for an aging population.

The council would identify and review the education and training resources in the UK. *The focus would be on different* education sectors and how they relate to one another. The roles of schools and colleges and adult education will be evaluated along with corporate *education.* Training programmes of the trades unions, government agencies and the armed forces also are vital to the review. Educational opportunities must be assessed with the new technologies and delivery systems in mind and with the instructional materials coming from the "learning industry."

It would also recommend policies and programmes. Drawing on the UK's extensive educational resources, proposals will suggest how programmes can be designed to meet more effectively the crucial needs of our society in a new era. The goal here is not to establish a national manpower policy, which has never been effective in the UK; rather, the challenge is to give guidance to the public and private *sectors,* to suggest strategies for local and national action, and to identify ways in which colleges and the corporate sector can co-operatively serve the lifelong education of adults. Council *reports may be viewed as* forecasts that bring intelligence to bear on complex problems and counsel adjustments and new programmes and policies as required.

(Dr) Michael Cross.
(Principal Research Fellow),
Technical Change Centre,
114 Cromwell Road, SW7

Government by gimmick ?

From Mr S. Penwill

Sir,—Are we not being subjected to "gimmick government"?

One penny off income tax; what really matters to the average wage earner is not the rate of tax but what he takes home in his pay packet. The reinstatement of the basic rate to 30 per cent with a substantial increase in personal allowances, compensated by adjustment of higher rate tranches, would take a large proportion out of direct tax altogether and possibly remove for a time at least, the necessity for continuous wage increases and so contain the cost of production.

Personal equity plans may sound all right in theory, but what market maker will be willing to deal in what after all are to him trivial amounts? It is suggested that purchases in any one company shall be lumped *together* but the *constituent* investors be registered separately; possible but somewhat unwieldy and impracticable. What, however, will be the position when one small investor wishes to realise his individual holding, worth perhaps a few hundred pounds in order to pay for his summer holiday? Will not the individual prefer to keep his savings in the building society, where the yield is greater, the money more accessible and the capital safe, subject only to inflation?

Relating wages to profits: presumably basic wages will have to be reduced to give effect to this, otherwise it becomes just a bonus scheme. If and when losses are incurred, which of course is always the fault of the management, are they also to be shared by a reduction of wages?

One comes to the conclusion that every potential MP should perhaps have to work in industry for a period before being allowed to stand for Parliament. Such a requirement might put some reality into government.

S. W. Penwill,
Room 5.23,
76, Shoe Lane, EC4.

No omelettes without eggs

From Mrs E. Kasket

Sir,—In your leader of July 21 some surprise was discernible regarding the possibility that Germany's monetarist virtue may not have secured the reward of growth.

As I mix my Camille cake this evening, using six eggs, extravagantly, for a fabulous result rather than four, however efficiently, for a fair one, I would suggest that the disappointing outcome so far was predictable.

A reduction of energy in an economy, in line with accepted *monetarist* philosophy, will weaken if not destroy the fermenting climate which is needed to reward risk and incite invention to produce magical new ingredients. A "leaner and fitter" climate will delay *discoveries.*

So, until a new egg is discovered, I will go on believing that a little waste goes a long way and that, for two extra old-fashioned eggs, an overflowing tin will ever be my reward.

(Mrs) E. Kasket.
7 Lymington Road, NW6.

True economic warfare

From Dr R. Ellis

Dear Sir, — Economic sanctions have the effect of creating monopolies for the target countries which can be efficiently exploited by capital in that country. This happened in Rhodesia, now Zimbabwe. Mrs Thatcher's stand against similar sanctions is based on the demonstrated fact that they will work for rather than against South Africa.

An *alternative solution* is a rationed embargo. All foreign businesses trading with South Africa would be required to reduce sales to a percentage of what they had been during the previous year. Thus South African markets would be kept permanently short of all imported products but by suitably adjusting the ration percentage, conditions would be maintained so that local South African firms could not establish themselves in the market to make up the short-fall. And where this happened accidentally then bankruptcy could be ensured by lifting the rationing temporarily in the relevant market segment.

A rationed embargo is much closer to true economic warfare than a normal embargo, which is just a guarantee not to compete.

(Dr) R. J. Ellis.
10 Ave de Florimont,
1006 Lausanne, Switzerland.

Wind and wave power

From Mr D. Ross

Sir,—Mr P. E. Watts of the Central Electricity Generating Board argues (July 18) that energy management and conservation *alone* cannot *provide* sufficient savings to obviate the need for new generating plant and remarks correctly that the CEGB did make this point during the Sizewell inquiry. But other evidence submitted quoted his own *colleagues,* leading CEGB scientists, as calculating that we could obtain virtually all our electricity from wind power alone.

The scientists presented a paper to the British Wind Energy Association *conference* estimating that "on conservative assumptions" we could obtain "annual energy of about 240 TWh (terawatt-hours)" and that this was "comparable with current UK electricity generation" from *wind-turbines* based in-shore.

The figure was produced by the CEGB planning department and it has now been reconsidered by the CEGB's technology planning and research division and has been *slightly* reduced to 230 TWh but is correctly described once more as "comparable with total UK electricity demand." The paper has been published by the United Kingdom Atomic Energy Authority which cannot be suspected of being unfriendly towards nuclear power development, at Sizewell and elsewhere.

Another section of the booklet, *also written by CEGB staff,* estimated that wave power could give us "an average power of 6 to 10 GW (gigawatts)" which is roughly the amount by which the CEGB would wish to increase output in the foreseeable future.

In these circumstances, it is hard to understand why Mr Watts says that we still need Sizewell B.

David Ross.
55 Ruskin Park House,
Champion Hill, SE5.

FINANCIAL TIMES
Wednesday July 23 1986

Political fuss but not a battle royal

Peter Riddell, Political Editor, explains why embarrassment in Britain over a newspaper report that the Queen has shown "dismay" over some of Margaret Thatcher's policies, especially concerning the Commonwealth and South Africa, falls short of a constitutional crisis.

EVERYTHING that happens in British politics in July needs to be heavily discounted. Politicians and the press are tired after a long parliamentary session, tempers are short and imaginations are vivid.

So the controversy over Queen Elizabeth II's alleged "dismay" and concern about some of Mrs Margaret Thatcher's policies, particularly the Prime Minister's attitude towards South Africa, should not be exaggerated.

There is not a constitutional crisis. What there is is an embarrassing political rumpus – as embarrassing to the Queen and her advisers as it is to Mrs Thatcher.

It is difficult to get at the truth. After all, the monarch is above politics. She does not give interviews and is a byword for discretion in her relations with politicians. Her weekly meetings with the Prime Minister of the day, normally each Tuesday evening, are supposed to be intimate chats, from which nothing ever leaks.

There have, however, been rumours (naturally unconfirmed) that the two women, both aged 60, are not exactly close. One of the ironies is that the Queen is said to have got on better with conventional Labour prime ministers such as Lord Wilson and Mr James Callaghan than with the Conservative, although radically minded, Mrs Thatcher.

The Queen is in a complicated position over the Commonwealth, of which she is head, and is, in theory, in the same relation to prime ministers in distant parts of the world as she is to Mrs Thatcher.

However, she has been faced with a dilemma over the bitter divisions within the Commonwealth, highlighted by the decision of so many African and Caribbean countries to pull out of the Commonwealth Games starting in Edinburgh tomorrow.

The monarch's role is to be consulted and to advise, both in private. Yet as head of the whole Commonwealth, which comprises 49 independent nations formerly part of the British Empire, the Queen has more knowledge both of its diversity and of its common links than anyone else.

Indeed, in the last few weeks, Buckingham Palace officials have made known to press inquirers her concern with the divisions in the Commonwealth over South Africa. Her natural desire is for unity.

At this point, conjecture enters. Indeed, one of the charms of the story is that little can be proved or denied. One version, backed by various unattributable, authoritative sources, is that the Queen was particularly annoyed by Mrs Thatcher's series of interviews a fortnight ago when the Prime Minister attacked general economic sanctions as "immoral" and regretted the departure of South Africa from the Commonwealth in 1961. The Queen, like Britain's Foreign Office, apparently felt that such words would aggravate, rather than soothe, the difficulties.

Knowledge of the Queen's alleged feelings quickly percolated through the higher political world, causing concern about divisions between Buckingham Palace and Downing Street. Lord Whitelaw, the leader of the Lords, who has close links to the palace, then told some journalists about his worries of such a rift, mainly with the hope of persuading Mrs Thatcher to tone down her remarks.

Three days ago, The Sunday Times produced a report saying the Queen regarded the Prime Minister's approach as "uncaring, confrontational and socially divisive." Despite strong denials by spokesman for the Palace, The Sunday Times has stood by its story, which, it says, came from a highly placed source within Buckingham Palace.

The result has been a furious reaction from Conservative MPs and senior ministers rallying round Mrs Thatcher. Some of the criticism is directed at The Sunday Times but it is mainly aimed at a number of the Queen's advisers, who, it is argued, had been both disloyal and meddling.

Mrs Thatcher's allies argue that the overall effect will be to damage the Palace by tarnishing its non-partisan image of being above politics, since the view of a duly elected Prime Minister must always prevail. That was, after all, why Edward VIII first got into trouble in the abdication crisis of 1936.

All involved now seem to want to lower the temperature. But there is a cost. Mrs Thatcher's supporters suspect that some of the Queen's advisers have been indiscreet.

The term advisers can be extended to cover a wide range of courtiers and friends of the royal family as well as those at the heart of Buckingham Palace. But one senior minister says it has always been clear from his meetings at the Palace that some people around the Queen have been cool and distant to Mrs Thatcher and they have friends among traditional Conservatives who are pleased at the discomfiture of the Prime Minister.

That, however, does not add up to a crisis. It is, like so much else in British politics, a series of misunderstandings magnified by the characteristic British interest in anything concerned with the monarchy. Yet, at a deeper level, the episode highlights the reservations which the traditional British Establishment has about the social outsider Mrs Thatcher and her counter-revolution.

Union Discount ends plan for gilts role

BY CLIVE WOLMAN IN LONDON

UNION DISCOUNT yesterday announced that it was dropping out as a market-maker in the new trading structure for British government gilt-edged securities that will come into place on October 27.

The decision, by one of London's leading discount houses, came as a surprise both for the Bank of England, which has led the reorganisation of the market, and for the other 27 market-makers that have been designated by the central bank. Other market-makers are expected to drop out before Big Bang arrives in October.

Mr Graeme Gilchrist, managing director of Union, said that "after extensive analysis," his company had concluded that there were too many market-makers backed by too much capital to allow sufficient profits to be made by the participants. "We can see there is no point in going over the top when a bloodbath stands in front of us," he said. "But that has taken a long time to get into our heads."

Mr Gilchrist said that Union had assumed, possibly too optimistically, that it could achieve a share of 2 per cent of gilt-edged trading and an average profit of ¼ point on each complete buy-and-sell transaction. Even then, he said, the anticipated return on the £15m ($22m) of capital that the company would have to dedicate to the business would be only 5 per cent.

So far, the company has spent only £250,000 on computerisation in preparation for market-making and has recruited an extra four people. Both the additional staff and computer back-up will now be used, Mr Gilchrist said, in Union's other activities, which will include gilt-edged trading.

Although market-makers are to be granted exclusive access to the Bank of England and its issuing facilities in the new market, Union no longer considered that an important privilege, Mr Gilchrist said. Instead, Union preferred the freedom of being able to trade in the market as and when it wished.

Union will retain an interest in market-making through its 50.1 per cent stake, due to rise to 100 per cent by 1989, in the Glasgow stockjobber Aitken Campbell. It is a designated market-maker, and plans to concentrate on smaller trades. Union is also writing to shareholders to explain why the equity it raised last year specifically to enter the gilt-edged market will now be used for other purposes.

In June 1985, the Bank of England published a list of 29 market-makers with whom it was prepared to deal in the new gilt-edged market. Earlier this year, one, Bank of America, dropped out, because of its domestic difficulties.

The decision of Union, the second largest discount house, and the reasons behind it, are likely to have a much larger impact on the thinking of other market-makers. According to Mr Roger Gibbs, chairman of Gerrard & National, the only other independent discount house to be designated a market-maker: "It will be easier now for other market-makers to follow Union. There may be only 22 or 23 left by the time the market opens."

The Bank of England indicated this month that it considered it unlikely that any more potential market-makers would drop out before October because all had become too deeply committed in terms of resources and public image.

Barclays broking plans, Page 7; Survival of the trimmest, Page 13; Lex, this page

Minister hints at action on Guinness

By Lionel Barber in London

MR MICHAEL HOWARD, British minister responsible for financial markets, hinted last night that the Government might take action under its Financial Services Bill in response to widespread criticism of Guinness's plans to abandon official undertakings made during its successful £2.5bn ($3.8bn) takeover of Distillers, the international drinks business.

Mr Howard said in a parliamentary written answer that he was looking at two sections in the bill, which proposes a new regulatory framework for London financial markets. Those sections refer to listing particulars and offer documents from companies engaged in takeover bids.

Last week, Guinness said it was abandoning plans for a separate group supervisory board to be chaired by Sir Thomas Risk, governor of the Bank of Scotland. Under a new plan, Mr Ernest Saunders would be appointed group chairman and chief executive and Lord Iveagh, formerly Guinness chairman, would become group president.

The announcement caused an uproar, including a rare public rebuke from the Bank of England, and ended with the resignation of Guinness's joint brokers, Wood Mackenzie.

Yesterday, Lord Iveagh moved to calm the controversy by inviting Lazard Bros, the merchant bank, to act as his personal advisers.

The appointment of Lazard, although unusual, was seen yesterday by analysts as an effort to stifle criticism over the board changes.

Morgan Grenfell, merchant bank advisers to Guinness, said Lazard's views on the crucial shareholders' circular explaining the board changes would be welcome. It would also listen to any suggestions by Lazard on the appointment of three non-executive directors to the Guinness board to replace the three directors named during the takeover battle: Sir Thomas; Mr Charles Fraser, chairman of Morgan Grenfell (Scotland); and Sir Nigel Broackes, chairman of Trafalgar House, the industrial conglomerate. Sir Nigel retains his non-executive directorship at Distillers.

In a statement issued yesterday, Lord Iveagh said he wanted to make "quite clear that the entire Guinness board, family and management are behind Ernest Saunders. He is the chairman we need to take this company forward."

BET launches dual bids totalling £127m

BY LIONEL BARBER IN LONDON

BET, the diversified UK industrial services group, yesterday announced two bids worth a total of £127m ($192m) to strengthen its position in the UK cleaning and scaffolding sectors.

BET is making an agreed £31m offer for Brengreen, the contract cleaning and waste disposal group. But its £96m offer for the HAT group, the paints, scaffolding and cleaning group, was rejected last night by HAT as inadequate and unsolicited.

Two months ago, BET dropped a £117m bid for SGB, Britain's largest scaffolding group, despite clearance from the Monopolies and Mergers Commission following a six month inquiry. Yesterday's proposed acquisition of the HAT group would put BET on a par with SGB in the UK market.

Mr Nicholas Wills, BET's chief executive, said: "The HAT acquisition partially covers our position and gives us a healthier market position."

In the year to last March, BET made £124.6m pre tax profits on £1.47bn turnover, a 24 per cent rise on the previous year.

The HAT group, which has substantial paint interests in the US, announced pre-tax profits before extraordinary items of £11.075m (1985: £11.478m) on barely increased turnover of £240m.

BET is offering five new shares for every 17 shares in HAT. On the basis of last night's closing price for BET, down 17p to 423p, the offer values HAT, up 30p to 124p, at 124p a share.

HAT, surprised by the offer, appointed S. G. Warburg yesterday as its merchant-bank adviser. BET is using N. M. Rothschild for the HAT bid since it was Rothschild that originally proposed the combination two years ago to Initial, the industrial services group subsequently acquired by BET.

For the Brengreen offer, BET's advisers are Barings. BET is offering one of its own shares for every nine in Brengreen. The offer values Brengreen, up 2p to 43½p, at 47p per share.

Brengreen last week announced pre-tax profits of £2m on turnover of £56.9m, a 33 per cent drop on the previous 12 months. The proposed deal would give BET a leading UK market position alongside the Hawley Group, which bought Pritchard Services Group for £145m this year.

Mr David Evans, Brengreen chairman, who founded the group 25 years ago, said it has become difficult to compete against the big UK cleaning groups such as Hawley on contract work.

US growth rate slows

Continued from Page 1

doubt. But he expressed optimism that such an upturn would materialise and discounted the threat of recession.

Consumer expenditure again rose quite strongly in the second quarter and overall real final sales, a measure that excludes movements in inventories, increased by 3.4 per cent.

But destocking by businesses that had built up their inventories in the first quarter – the automobile industry in particular – depressed the GNP figures. So, too, did the continued absence of any improvement in the US trade deficit, which Mr Baldrige said might be slightly higher this year than the $148bn recorded in 1985.

Mr Baldrige cited the continued resilience of consumer spending, the vigorous 6-7 per cent annual rate of increase in consumers' real after-tax disposable income in the first half of the year. He hoped the rise in the trade deficit would at least begin to level off in the second half. That, with an upturn in inventory building, might boost the economy later in the year.

But whether evidence of an upturn, if it is indeed on its way, will appear in time to be much help to the Republicans in the autumn election campaign is doubtful. Many private economists suspect that the third quarter is also off to a sluggish start.

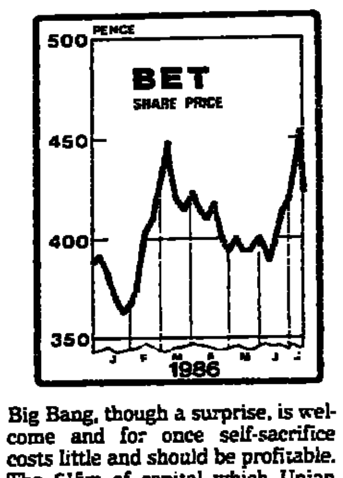
Yesterday's figures did, however, confirm the continuing encouraging news on inflation. The GNP price index, a broad measure of inflation, increased only 1.8 per cent in the second quarter, largely as a result of falling energy prices. In the first quarter, the index rose 2.5 per cent.

Mr Malcolm Baldrige

THE LEX COLUMN

Win or place, its BET

Not quite so dreary as the foreign exchange markets seem to have expected, judging by yesterday's modest bounce in the dollar, the second quarter's 1.1 per cent growth in US GNP is still far from encouraging. The policy of cutting interest rates to stimulate activity is still pulling in imports: unless the dollar slides so far that importers have no margin left to sacrifice, that is likely to remain the principal effect of loosening up. So Mr Volcker may be under pressure this afternoon to clobber the dollar even harder, and use interest rates to close the import window.



BET bids

Even in the height of the takeover boom, it has been the exception to make two takeover bids in one day. Only the most pressing desire to invest £127m, or the strongest urgings of industrial logic, can have led BET to go for such disparate areas as plastering and hospital cleaning in a single throw. On yesterday's evidence, BET's simultaneous offers for HAT and Brengreen may nevertheless be headed for a clean sweep.

Brengreen's chairman has decided that an agreed bid from BET gives him the right opportunity to hang up his mop and bucket before embarking on a parliamentary career, while the market has looked at the offer for HAT and decided that resistance from the existing management is unlikely to be very strong; at yesterday's 124p, up 30p, HAT is sitting squarely on the BET terms.

Since it already has strong positions on both cleaning and scaffolding, in the UK, BET can argue that both acquisitions would reinforce its market power, while some of HAT's painting business neatly fills a gap in the group matrix of industrial services. But the high multiples and substantial goodwill suggest that BET shareholders should be wary of dilution.

Union Discount

The number of green bottles on the Bank of England's gilt-edged wall may be diminishing, but there are still enough for a riotous party and some nasty hangovers. Union Discount's brave decision yesterday not to become a market-maker post Big Bang, though a surprise, is welcome and for once self-sacrifice costs little and should be profitable. The £15m of capital which Union had planned to put in the market could earn more in a building society account, let alone employed in trading gilt-edged stock as Union now intends. Shareholders should be relieved that it is not being put to the purpose for which much of it was subscribed last year; a 10p fall in the share price yesterday to 685p seems a perverse reaction.

Even Union's withdrawal still leaves perhaps £600m of capital in what will be a cut-throat market. The demand that market-makers trade the full range of stocks whatever the weather must guarantee poor returns for the players. Apart from hopes of profits in the distant future, the only justifications for staying in are the need to offer clients a full range of services and the importance of having direct access to the Bank of England. Union's other links with the Bank allow it to get a clear picture of which way markets are moving, and as it has learnt in the discount market, money is made not by dealing at inadequate margins but from correct position taking. Some other potential primary dealers might do well to follow Union's example.

British Gas

Imagine the pained expression on the faces of the British Gas board as they agreed to publish audited historic cost results for the first time in over a decade. Buried on the final two pages of the report and accounts, these show a 10 per cent drop in post tax profits to £721m. At first sight that seems a very disappointing return in a year when the volume of gas sold to the domestic sector rose by 8.3 per cent, more than five times the rate of increase in 1984–85. Such an increase in the premium market would normally generate bumper profits, but the corporation's tax bill has been inflated by the phasing out of first year capital allowances.

There is another reason, masked by the corporation's usual masonic silence on the working of its gas purchase contracts. Thanks to the time lags and oil links in the pricing mechanisms it seems that the past year has absorbed the consequences of the increase in fuel oil prices during the pits strike. The current year is also suffering from a severe attack of the lags, as the corporation is trying to hold its share of the industrial market while buying gas linked to 1985 oil prices. The boom year should be 1987–88, which is too far ahead for the prospectus to value. But it is on a yield, not a multiple, that Gas will be valued. Before a working capital figure abnormally swollen by the occurrence of a very cold spell at the year-end, British Gas's surplus funds jumped by 60 per cent to £460m. One can hear the licking of lips in Tokyo.

Investment flows

Were pension-fund managers brilliantly anticipating the market peak in early April when they sold UK equities in the first quarter of the year? Figures from the Bank of England suggest a decided policy shift as the long-term institutions piled up cash and, unusually, were net sellers of shares.

Short-term assets of the pension funds and insurance-company long-term funds rose by £1.73bn in the quarter. But the explanation is probably more mundane and need not cause panic in the market.

First, the various bidders for Distillers and Imperial Group were buying their victims' shares in the market. Then, institutions were expecting a high level of equity offerings, either rights issues or privatisations, during the year and were no doubt earmarking funds in advance. Cold statistics of what is bought or sold cannot register intentions: but the second-quarter figures may well show that the intentions have been changing as the market softens.

Mexico in debt deal

Continued from Page 1

cepts the Government's new "minimum growth" target of 3 to 4 per cent of GDP from 1987. If national output has not recovered to that level by the end of the first quarter of 1987 – from an expected fall this year of 5 per cent of GDP – a second compensatory mechanism will automatically come into operation, providing new funds for public investment in sectors with high local content and multiplying effects.

Mr Petrivioli says the IMF has also accepted Mexico's benchmark definition of an "operational" budget deficit, which means exclusive of the inflationary impact of higher domestic interest rates, caused primarily, in the Mexican view, by the lack of any net new external credit in the past 19 months.

In practical terms, Mexico is committed to reducing the deficit by three points of GDP in 1987, although the authorities do not say from what level this year. Unofficially, the deficit is expected to reach 13 per cent of GDP this year, against the pre-oil price collapse target of 5.1 per cent, which the IMF had originally sought to maintain.

The Mexican statement reiterates that debtors and creditors share "co-responsibility" in the debt crisis.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	26	79	Dubrovnik	S	28	82	Malta	S	27	81	Rhodes		28	82
Algiers	S	36	97	Edinburgh	C	15	59	Manchester	C	14	57	Rio de J'o		31	88
Amsterdam	T	18	64	Faro	F	24	75	Melbourne	F	14	57	Rome		25	77
Athens	S	29	84	Florence	S	28	82	Mexico City	F	24	75	Salzburg		24	75
Bahrain	S	44	104	Frankfurt	F	25	77	Miami	C	29	84	San Francisco		20	68
Barbados	S	29	84	Funchal	F	22	72	Milan	S	28	82	Seoul		27	81
Barcelona	S	26	79	Geneva	S	27	81	Montreal	F	22	72	Singapore		32	90
Beirut	—	—	—	Gibraltar	F	25	77	Moscow	C	23	73	Stockholm		20	68
Belfast	C	14	57	Glasgow	C	14	57	Munich	F	20	68	Strasbourg		27	81
Belgrade	S	20	68	Guernsey	S	16	61	Nairobi	C	23	73	Sydney		18	61
Berlin	C	24	75	Helsinki	C	14	57	Naples	S	29	84	Tangier		35	95
Biarritz	S	23	73	H. Kong	F	29	84	Nassau	C	33	91	Tel Aviv		34	93
Bombay	S	29	84	Innsbruck	S	25	77	New Delhi	F	33	91	Tenerife		30	86
Bordeaux	S	32	90	Inverness	C	13	55	New York	S	33	91	Tokyo		26	78
Brussels	C	19	66	Istanbul	S	33	91	Nice	S	29	84	Toronto		22	72
Budapest	S	20	68	Jersey	S	19	66	Nicosia	S	38	102	Tunis		23	73
B. Aires	S	14	57	Jakarta	C	30	86	Oporto	S	29	84	Valencia		29	84
Cairo	S	34	93	Jersey	S	19	66	Oslo	S	26	79	Venice		29	84
Cape Town	R	11	52	Jo'burg	S	18	64	Paris	F	22	72	Vienna		25	77
Caracas	R	28	82	Lima	C	18	64	Perth	F	22	72	Warsaw		23	73
Casablanca	S	25	77	Lisbon	F	21	70	Peking	S	31	88	Washington		22	72
Chicago	C	29	84	London	C	18	64	Prague	F	22	72	Wellington		23	73
Cologne	S	24	75	Los Angeles	C	28	79	Reykjavik	F	13	55	Zurich		24	75
Copenhagen	C	18	61	Luxembourg	F	24	75								
Corfu	S	30	86	Madrid	S	36	97								
Dallas	F	22	72	Majorca	S	27	81								
Dublin	C	15	59	Malaga	S	29	84								

Readings at mid-day yesterday.
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Reagan presses for end to apartheid

Continued from Page 1

to reconsider, and suggested a meeting in Brussels before August 6.

The ANC yesterday released the text of Mr Tambo's reply. "The idea of the mission was conceived in London," wrote Mr Tambo, "in the context of a rejection by the British Government of the report submitted by the Commonwealth eminent persons group." The report said that economic sanctions against South Africa should be considered after the group's conclusion that Pretoria was not prepared to start constitutional talks with black leaders.

The purpose of the mission, the letter said, was to "render irrelevant" the Commonwealth's efforts including the mini-summit of seven Commonwealth leaders due to meet in London on August 3 to discuss the report.

"We do not see our way clear to participating in a process so obviously designed to evade and indefinitely postpone decisive action to end the apartheid system. In this regard, the statements repeatedly made by the British Prime Minister have, to say the least been unhelpful," the letter continued.

Michael Cassell writes: Mrs Thatcher yesterday told the House of Commons that she had not ruled out a meeting with Mr P. W. Botha, the South African President.

It was emphasised later by Downing Street, however, that the Prime Minister had no plans to meet President Botha but that such a meeting could not be completely ruled out as part of the Government's efforts to achieve peaceful negotiations aimed at ending apartheid.

● Grenada and Mauritius yesterday brought the number of countries boycotting the Commonwealth Games in protest at Britain's South Africa policy to 29. There are 29 teams still left in the Games, which start in Edinburgh tomorrow.

Miss Annette Cowley, the South African-born swimmer, yesterday failed in her High Court bid to overturn the Commonwealth Games Federation ruling that she was not eligible for the England team. She is unlikely to appeal.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Wednesday July 23 1986

Renault to dilute stake in AMC

BY PAUL BETTS IN PARIS

RENAULT, the French state-owned car group, does not intend to participate in American Motors' (AMC) planned $2m public offering of convertible preferred stock. This will reduce the French group's stake in the troubled US car manufacturer to about 40 per cent from 46.1 per cent.

Renault confirmed yesterday that it was not planning to subscribe to the AMC funding operation but said it would continue to maintain effective control of AMC and could eventually increase its stake in the US company back to about 45 per cent by converting various issues it holds in AMC.

Renault is involved in a big restructuring in France to cut losses and return to profitability and does not intend to increase its financial exposure in AMC at this stage.

The new issue of convertible preferred stock is expected to involve 8m shares at $25 each carrying a dividend of 8–9 per cent. The issue is to be placed by three US financial institutions including Lazard Frères, Shearson, and Drexel Lambert.

The funding comes at a time when AMC has been under heavy financial pressure. The US car group recently reported a $52m second-quarter loss this year. AMC is now banking on the renewal of its car range, including the introduction of an American version of the Renault 21 medium-sized saloon next year, to help to reverse its fortunes.

Although there has been repeated speculation about Renault's commitment to AMC, the French group claims it wants to keep control of the US car maker.

However, Mr Georges Besse, Renault's chairman, does not want to inject fresh funds into AMC while he is trying to return the French group to the black.

His recovery efforts in France appear to be advancing more quickly than expected. Renault is now expected to report a consolidated net loss of between FFr 5bn and FFr 6bn ($725m–$870m) this year after a net loss of FFr 10.9bn last year and a record loss of FFr 12.5bn the year before.

The net loss is expected to include financial charges estimated at FFr 6bn this year.

Renault is thus likely to see its operations break even or show a small profit this year.

Renault is also planning to reorganise and rationalise its vehicle and components research and development departments and production technology centres.

MBB to market Japanese robots

By David Brown in Frankfurt

MESSERSCHMITT-Bölkow-Blohm (MBB), the West German aerospace group, has reached an agreement to market in parts of Europe the complete range of industrial robots manufactured by Toshiba of Japan.

The arrangement, signed in London on Monday covers the West German, Swiss and Austrian markets, and could lead to a further agreement on joint technical development of new robotics systems.

MBB also announced plans to maintain a high level of research and development spending this year following DM 2.2bn ($1bn) in outlays in 1985 (of which DM 1.9bn was government financed).

The group is heavily involved in the Eurofighter project, a new anti-tank helicopter and the Airbus 330 and 340 aircraft range. It is also expanding its space-related activities.

MBB, which is the prime German contractor for Airbus and Tornado, Europe's biggest civil and military aerospace joint ventures, said last year's results were "satisfactory on the whole" but below original expectations against the background of weaker demand for the Airbus 310 and 300 – of which some 408 have been sold – and some helicopter models.

Profits before tax climbed by DM 11m to DM 109m on total turnover of DM 6.01bn. Order intake "significantly improved" to DM 9bn by year's end from the DM 8.4bn in 1984.

It expects marginally lower turnover of DM 5.9bn this year – and stable earnings – to be followed by a sharp rise in 1987 sales to DM 7.4bn. About half the group's sales are generated by aircraft, divided equally between civil and military projects.

Sears Roebuck lags at halfway stage

BY WILLIAM HALL IN NEW YORK

SEARS ROEBUCK, the US retailing and financial services group, yesterday reported a 7.3 per cent rise in second-quarter net income to $284.9m, but this was not enough to prevent a marginal $8.6m drop in first-half earnings to $480.2m.

Second-quarter revenues rose 9.3 per cent to $10.75bn and earnings per share rose 5 cents to 77 cents in the latest period. For the six months earnings per share were 3 cents lower at $1.29. Sears shares rose by $⅝ to $42⅞ in early trading yesterday.

Mr Edward Brennan, Sears chief executive, said that net income benefited by $27.8m in reduced pension expenses, principally in Sears Merchandise, the group's traditional retailing operation.

Sears Merchandise increased its second-quarter income by 20.6 per cent to $166.2m; its results were helped by improved trends in sales and margins.

Allstate Insurance increased its profits by 21.7 per cent to $185.6m, reflecting improved underwriting operations and increased investment income, but Dean Witter Financial Services, the brokerage activities, reported a second-quarter loss of $18.4m compared with a profit of $12.2m in the same quarter last year.

The group's Coldwell Banker real estate operations posted $800,000 of income in the latest quarter, down from $4.8m a year ago, and Sears World Trade reported a loss of $4.5m against a loss of $2.8m

PepsiCo registers small rise in income

By William Hall in New York

PEPSICO, the US soft drinks to snack foods group which describes itself as being in "an era of sustained high growth," yesterday reported a 3.5 per cent drop in pre-tax profits from continuing operations and marginally higher net income of $120.7m in its second quarter.

Earnings a share from continuing operations rose 12 per cent to 47 cents in the second quarter and sales rose by 11.8 per cent to $2.17bn. For the six months net income from continuing operations rose by close to $10m to $189.4m, earnings a share rose by 10 cents to 73 cents a share, and revenues rose by 11.4 per cent to $3.97bn.

PepsiCo's soft drinks earnings rose 11 per cent on a 16 per cent sales increase and the group reports continued volume improvement and robust earnings gains in the US where bottler case sales rose 7 per cent. International bottler case sales rose 5 per cent but earnings declined compared with last year because of accelerated spending in key markets.

In the group's snack food operations earnings were unchanged but a volume growth of 6 per cent was reported. The group's restaurant operations achieved a 9 per cent earnings gain on an 11 per cent sales increase.

Mr D. Wayne Calloway, PepsiCo's chief executive, says the fundamentals of all the group's businesses continued to be strong.

"Significantly, Pepsi USA and Frito-lay recorded exceptional volume growth and market share gains. Few consumer products can match their impressive rates of growth."

PepsiCo shares rose by $½ to $31¼ in early trading yesterday.

US-Dutch venture losses increase

By Laura Raun in Amsterdam

AT&T-PHILIPS, the joint telecommunications venture between the American and Dutch groups, saw its losses widen to Fl 92m ($38.3m) in 1985 from Fl 56m the year before.

Losses were attributed to the high start-up costs of the 2½-year-old company, especially adapting AT&T's digital telephone switching system to European standards. AT&T-Philips is believed to have wanted to move into profit by this year but now has said it expected to become profitable only in the future.

Turnover climbed 13 per cent to Fl 881m with Europe expanding its share of total turnover to two-thirds. North American sales rose faster than sales in Europe. Revenue lagged behind company forecasts of Fl 1bn in 1985.

Yesterday the Hilversum-based company announced a Fl 27m order from the Turkish PTT telecommunications agency for a digital transmission system from Ankara to Istanbul to be installed on existing cable.

AT&T-Philips believed it had a good chance at arranging a deal with Cie Générale des Constructions Teléphoniques (CGCT) that would give the American-Dutch joint venture access to 16 per cent of the French telephone exchange switching market.

The recent link-up between Cie Générale d' Electricité (CG) and International Telephone-Telegraph in the telecommunications market is thought by some to threaten AT&T-Philips' chances but the company insisted it would get approval from Paris.

Dart & Kraft reports modest 3% profits rise

BY OUR NEW YORK STAFF

DART & KRAFT, the US food and consumer products group which recently announced plans to split itself up, has reported sluggish earnings during the second quarter. Net profit advanced only 3 per cent to $119m from $115.6m, or to 83 cents a share from 80 cents.

Sales during the period rose 8 per cent to $2.6bn from $2.4bn in the second quarter of last year, the company said.

Mr John Richman, the chairman, said the Kraft food subsidiary, Tupperware plastic tableware and Hobart food equipment divisions had performed well. Duracell, the group's battery business, had been "disappointing," while other interests such as decorative laminates had suffered from adverse market conditions.

Separation of Dart & Kraft's interests into two companies was proceeding according to plan and should be completed by the end of the year, Mr Richman said.

Kraft, the larger of the two proposed new entities, will include several of the businesses which produced strong second-quarter performance.

Sales of the existing Kraft food business were $1.9bn, up 10 per cent from last year, while operating profit rose 7 per cent to $188.6m. At Duracell, overseas sales were up but earnings were down because of currency factors while US sales were affected by a high level of dealers' stocks.

Tupperware, Hobart, wilsonart plastics and laminates and other non-food businesses will form the second, and as yet unnamed, new company.

Fireman's Fund returns to profit

By Our New York Staff

FIREMAN'S FUND, the property and casualty insurance group of which American Express sold off 59 per cent to investors last October, has announced operating profits for the second quarter of $40m, or 61 cents a share, compared with a loss of $84m in the second quarter of last year.

After extraordinary gains, net income came to $55m in the second quarter (83 cents a share).

For the first six months, Fireman's Fund showed an operating profit of $70m ($1.06 a share) against a loss of $87m in the same period a year earlier. Net income was $85m ($1.29 a share).

Since last year's initial offering of Fireman's Fund shares, the biggest ever carried out on Wall Street, American Express has further reduced its holding by selling off further stock and stock warrants to investors. Exercise of all the outstanding warrants would take its stake in the insurance company down to 15 per cent.

Fireman's Fund earlier this year made its first diversification move since being spun off from American Express when it paid $260m for the mortgage lending subsidiary of Manufacturers Hanover.

Union Carbide to sell agriproducts unit

BY ADRIAN DICKS IN NEW YORK

UNION CARBIDE, the third-largest US chemicals group, yesterday offered for sale its worldwide agricultural products division. The division includes Union Carbide's US plant manufacturing methyl isocyanate, the toxic gas which escaped from its Bhopal works causing the deaths of more than 2,000 people in December 1984.

Neither the Bhopal chemical plant nor Carbide's nearby agricultural research laboratory is included in the assets being offered for sale. No asking price was disclosed by the company, which is in the course of a huge programme of restructuring that has already seen it dispose of assets worth more than $2.2bn in the past few months.

Carbide declined to break down sales or earnings of the business to be sold. It forms part of the group's technical services and special products division, with consolidated sales of $2.3bn and operating profits of $143m in 1985. Its products include the pesticides Temik, Sevin and Amibin.

Analysts have put the value of Carbide's agricultural products sales at about $500m a year. There have been problems with the business, according to some who have been watching the company, including complaints about leaks of MIC from the division's Institute, West Virginia, plant and considerable pressure from local residents and environmental groups.

Carbide is not selling other parts of the huge Institute complex which makes chemicals used in other parts of its broad spread of operations.

The restructuring plan follows Carbide's successful defeat last January of an unwelcome bid by GAF, a smaller manufacturer of chemicals and building products, which appears to have been attracted to Carbide by the bigger group's weakened position arising from the Bhopal disaster.

Monsanto earnings rise, Page 16

UAL back in black after fare-cuts war

BY OUR FINANCIAL STAFF

UAL, the holding company for United Airlines, the largest carrier in the US, returned to profit in the second quarter after engaging in a fare-cutting war.

The group recovered to a net profit of $18.5m, or 41 cents a share, in the latest three months compared with a loss of $103.1m in the preceding quarter and $91m, or $2.79, in the same period a year ago.

For the half year to June 30 the loss emerged at $84.6m, or $1.97 a share, which was down on the $91.7m, or $2.98, deficit for the first half of 1985.

Second-quarter revenue rose to $2.36bn, from $1.19bn, taking the interim total to $4.32bn, up from $2.78bn last time.

The latest quarter figures include the results of Hertz, which was acquired in August, and from a subsidiary's expansion in the Pacific region, begun in February.

The airline said it cut fares by $10 to $76 one way in several of its West Coast markets in an effort to curtail corporate discounting by its rival PSA, which was offering competitive rates.

● Trans World Airlines (TWA), the embattled international airline controlled by Mr Carl Icahn, the Wall Street corporate raider, has reported a $87m second quarter loss, pushing its first half losses to $256.6m.

The company's revenues fell by 29.6 per cent to $731.9m in the second quarter

Fidelcor gets smaller rival in takeover

By Paul Taylor in New York

FIDELCOR, parent of Philadelphia's second biggest bank, is taking over rival Merchants Bancorp in a deal expected to close by the end of the first quarter of 1987. The $360m stock swap is the latest sign of the dramatic restructuring now under way in Pennsylvania, one of the top five banking markets in the US.

Fidelcor, with assets of $8.9bn, is issuing 1.163 shares of its common stock for each share of Merchants common stock. Fidelcor says that the transaction is worth around $50 per Merchants Bancorp share.

Fidelcor will issue 8.8m shares of its common stock and Mr Carl J. Feichtel, chief executive of Merchants, will join Fidelcor's board as vice chairman. Based on July 18 prices, the deal values Merchants Bancorp, which has $2bn in assets, at 2.6 times its end-of-June book value and at 15 times its trailing 12 months earnings.

Fidelcor shares fell by $2 to $40⅝ in early trading yesterday and Merchants Bancorp shares fell by $1 to $46¾. In the event of a substantial decline in the common stock price of Fidelcor, Merchants can terminate the agreement unless Fidelcor elects to increase the exchange ratio.

OIAG faces top level reorganisation

By Patrick Blum in Vienna

AUSTRIA'S NATIONALISED industries face a major reorganisation following record losses last year for companies grouped within OIAG, the state holding company for the nationalised industries.

The OIAG group of companies reported losses of Sch 12.5bn ($838m) last year, mostly caused by Voest-Alpine, the state-owned steel and engineering group and the largest of the OIAG companies, Mr Oskar Gruenwald, OIAG management board chairman, said yesterday.

In 1984 OIAG had a deficit of Sch 2.5bn and prospects for this year did not look good. New orders in the first six months were down 25 per cent compared with last year, turnover was down 13.8 per cent and exports were down 16 per cent. OIAG is expected to have a deficit of about Sch 4bn, Mr Gruenwald said.

While the bulk of OIAG's deficit had been caused by Voest and Vereinigte Edelstahlwerke (VEW), its special steel subsidiary, several other companies have been in and out of trouble with only a few star performers such as OMV, the oil and gas group, which has returned regular profits in recent years.

The cumulative losses of Austria's most powerful empire of industrial companies – which employs more than 100,000 workers and accounts for about 20 per cent of all Austrian exports – have become a serious problem for successive governments struggling to contain a growing budget deficit. Direct subsidies to the nationalised industries between 1981 and December 1985 have been in excess of Sch 26bn.

The recent spate of losses by Voest and other OIAG companies has prompted the Government to push for a major reorganisation of the holding company.

Changes were expected to be agreed at an OIAG board meeting next month. These included measures to strengthen the board's supervisory role over OIAG's most important subsidiaries

Mobil's earnings jump

BY OUR NEW YORK STAFF

MOBIL, the second biggest US oil major, yesterday posted a 42 per cent jump in second-quarter net earnings to $382m, which takes in a $196m gain from various special items, including the sale of the group's Angolan oil operations.

Mr Allen Murray, chief executive, said that excluding the special items, operating income was down only marginally from the second quarter of 1985. The effects of lower crude and natural gas prices on exploration and production earnings were offset by stronger performances in downstream petroleum operations, he said.

Product margins have held up well, despite the continued weakness in the crude oil markets. Cost reductions, efficiency improvements and favourable currency trends also helped earnings, said Mobil.

For the first six months of 1986 Mobil's earnings are 40 per cent ahead at $1.02bn, or $2.50 per share, but Mr Murray warned that it was unlikely that the earnings levels of the first two quarters of 1986 could be maintained. Mobil shares rose by $⅝ to $36⅞ in early trading yesterday.

● Amoco, the big Chicago oil group, has given the first real clue to the impact of falling oil prices on the big US oil companies. It reported a 60 per cent drop in second quarter net income to $238m or 93 cents a share.

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Computer groups mixed

BY LOUISE KEHOE IN SAN FRANCISCO

MIXED RESULTS from US computer manufacturers provided only slim evidence of a recovery from the industry's protracted downturn. Although Tandem Computer, which makes "fail safe" mainframe computers reported improved quarterly performance, Amdahl, the IBM-compatible mainframe computer company, saw its profits drop dramatically on flat sales. Prime Computer also reported a drop in earnings.

Tandem, which recently introduced a new line of "fail safe" computers used for dealing applications such as banking and retailing, reported dramatically improved results for its third quarter.

The company had net earnings of $18.1m or 40 cents per share compared to income of $3.3m or six cents a share in the same quarter last year.

Amdahl reported second quarter net income of $2.7m

At Prime Computer, profits fell from $13.1m or 27 cents per share in the second quarter of 1985 to $11.4m

Control Data deficit grows

By Our New York Staff

CONTROL DATA, widely regarded in recent months as the weakest among the US computer and computer products companies, has reported a $7.8m loss for the second quarter.

This compares with the $4.8m loss suffered in the second quarter of 1985, and brings the group's first-half loss to $29m – more than twice as great as the $14m loss in the first half of last year.

Second-quarter revenues dropped to $828.5m from $913.2m, while six-month revenues were $1.6bn, compared with a figure of $1.8bn in the year-earlier period.

The company said results were encouraging for its data storage business, where orders were now increasing. Revenues and profits had also increased in the financial information and commercial services business.

BancTexas posts $8.6m loss

BANCTEXAS GROUP, the state's tenth largest bank holding company which plans to liquidate through two separate asset sales, has reported a second quarter loss of $8.6m, which would have been higher but for a $9.6m gain on securities transactions.

Mr Richard L. Ripley, BancTexas president, said loan problems stemming from weaknesses in Texas energy and real estate markets were "compounded by the resulting pressure on commercial loans in other industry sectors."

Assets have shrunk to $1.4bn, from $1.9bn in 1984 and $1.5bn last year, when BancTexas made a $35m loss.

In the latest quarter the group made provisions of $12.8m and charged off $11.7m in bad loans.

INTL. COMPANIES & FINANCE

AECI boosted by improved demand

BY JIM JONES IN JOHANNESBURG

AECI, South Africa's largest diversified chemicals group, increased turnover by 21 per cent in the first half of this year principally because of an improvement in volume sales during the second quarter.

The first half's turnover rose to R1.31bn ($524m) from R1.08bn in the first half of last year, and the interim trading income before financing charges and tax increased by one third to R141m from R106m. The interim pre-tax profit was R104m against R66m. In 1985 turnover totalled R2.34bn, the trading profit was R253m and the pre-tax profit R182m.

Mr Mike Sander, the managing director, said sales volumes showed slight across-the-board improvements after five years of flat demand. This led to better plant utilisation and better controls of stocks.

Export-orientated industries, such as mining and paper, maintained their strong demand for chemicals, while there was reasonable demand from general industrial sectors. Sales were particularly strong to plastics users such as footwear and electrical cable manufacturers which had benefited from lower imports.

Demand for fertilisers and agricultural chemicals remained weak and Mr Chris von Solms, who heads AECI's fertiliser division, was not optimistic on growth prospects. The fertiliser industry has considerable excess capacity and this situation was unlikely to change soon.

The first half's earnings increased to 45 cents a share from 33 cents and the interim dividend has been raised to 25 cents from 24 cents. Last year earnings totalled 114 cents a share and a total dividend of 74 cents was paid. The intention is that dividends should become twice covered within the next few years.

AECI is jointly controlled by Anglo American, South Africa's largest mining and industrial conglomerate, and ICI, the British chemicals group.

Dart raises bid for Safeway

By Terry Dodsworth in New York

DART GROUP, the privately held US retailing concern which launched an unsolicited bid for the Safeway stores group 11 days ago, has increased its offer by $10 a share to $68 a share.

The new bid, which values Safeway at $4.15bn, was preceded by vigorous trading in the company's stock, driving the share price up by $1¼ to $58 on the New York Stock Exchange on Monday.

In an immediate response to the revised offer, Safeway said that it would consider Dart's proposal along with all other relevant information and take appropriate action.

Although Dart has effectively made a hostile bid for the stores group, which has already instituted a poison pill takeover defence, it made a strong appeal for a mutually agreed transaction that would be in the best interests of Safeway, its stockholders, management, employees and customers.

Monsanto Chemicals increases earnings

BY ADRIAN DICKS IN NEW YORK

MONSANTO, the fourth biggest US chemicals producer, has reported a 19 per cent increase in second quarter net earnings to $148m or $1.90 a share, from $124m ($1.60 a share) in the same period of 1985. Sales in the period were $1.87bn, up 14.7 per cent from the previous year's $1.63bn.

The improving profit trend in the company's higher value-added chemical business resulted from the substantial cost cutting and restructuring carried out in the past six months, according to Mr Richard Mahoney, chairman. The core chemical businesses continued to benefit from lower manufacturing costs.

Mr Mahoney said that geographical diversification had also contributed to the improved performance of the first six months, when Monsanto earned $266m ($3.42 a share) on sales of $3.61bn, against earnings of $211m ($2.72 a share) on sales of $3.25bn in the first half of 1985.

European operations turned in a strong performance, mainly with what the chairman called excellent demand for polymers, rubber chemicals and Roundup herbicide. By contrast, sales of the company's Lasso herbicide (still the object of environmental challenges) in the US had dropped since last year because of a reduction in acreages of corn, soya beans and other crops.

Among the group's other interests, demand for wafers from the semiconductor industry improved in the second quarter, but has since weakened. Monsanto is due to bring new wafer finishing plants on stream in the third quarter in Japan and Europe.

NutraSweet, the non-sugar, low calorie sweetener acquired with G. D. Searle last year, continued to attract growing demand from consumers, according to Monsanto.

N. AMERICAN QUARTERLY RESULTS

BAXTER TRAVENOL LABORATORIES
Hospital supplies, medical equipment

Second quarter	1986 $	1985 $
Revenue	1.42bn	812.0m
Net profits	51.0m	43.0m
Net per share	0.17	0.30
Six months		
Revenue	2.79bn	1.02bn
Net profits	100.0m	82.0m
Net per share	0.32	0.56

EATON
Electronic & electrical eqpt

Second quarter	1986 $	1985 $
Revenue	1bn	912.6m
Net profits	52.5m	58.6m
Net per share	1.61	1.81
Six months		
Revenue	1.9bn	1.8bn
Net profits	102.6m	125.5m
Net per share	3.13	3.82

HASBRO
Toys and games

Second quarter	1986 $	1985 $
Revenue	323m	301.6m
Net profits	25.1m	25m
Net per share	0.43	0.44
Six months		
Revenue	677.1m	537.4m
Net profits	43.8m	41.6m
Net per share	0.76	0.76

3M
Industrial and consumer products

Second quarter	1986 $	1985 $
Revenue	2.18bn	1.95bn
Net profits	198.0m	174.9m
Net per share	1.72	1.51
Six months		
Revenue	4.25bn	3.86bn
Net profits	379.0m	343.0m
Net per share	3.30	2.97

MARSH & MCLENNAN COS.
Insurance broking

Second quarter	1986 $	1985 $
Revenue	453.4m	332.8m
Net profits	64.6m	40.4m
Net per share	0.87	0.55

MARTIN MARIETTA
Aerospace, building materials

Second quarter	1986 $	1985 $
Revenue	1.2bn	1.1bn
Net profits	55.1m	122.0m
Net per share	1.00	2.69
Six months		
Revenue	2.3bn	2.1bn
Net profits	101.3m	149.8m
Net per share	1.84	2.63

MCDONALD'S
Fast food restaurants

Second quarter	1986 $	1985 $
Revenue	1.08bn	955.6m
Net profits	129.8m	117.1m
Net per share	1.01	0.90
Six months		
Revenue	2.02bn	1.76bn
Net profits	223.9m	201.4m
Net per share	1.73	1.54

MELLON BANK
Bank holding company

Second quarter	1986 $	1985 $
Revenue	–	–
Net profits	54.8m	69.1m
Net per share	1.87	2.45
Six months		
Revenue	–	–
Net profits	115.3m	109.7m
Net per share	4.00	3.91

PAINEWEBBER GROUP
Securities dealer

Third quarter	1985-86 $	1984-85 $
Revenue	607.5m	493.8m
Net profits	7.14m	12.5m
Net per share	0.25	0.63

POLAROID
Instant photography

Second quarter	1986 $	1985 $
Revenue	396.4m	306.4m
Net profits	24.2m	9.9m
Net per share	0.78	0.32
Six months		
Revenue	722.4m	588.1m
Net profits	40.3m	†3.9m
Net per share	1.30	†0.13

†Loss

SOCAL EDISON
Utility

Second quarter	1986 $	1985 $
Revenue	1.21bn	1.23bn
Net profits	194.1m	189.7m
Net per share	0.83	0.80
Six months		
Revenue	2.45bn	2.44bn
Net profits	392.9m	391.2m
Net per share	1.67	1.66

STANLEY WORKS
Hand tools, industrial products

Second quarter	1986 $	1985 $
Revenue	402.6m	311.9m
Net profits	19.6m	19.1m
Net per share	0.70	0.70
Six months		
Revenue	726.8m	588.8m
Net profits	35.2m	33.2m
Net per share	1.26	1.22

TEXACO CANADA
Energy

Second quarter	1986 C$	1985 C$
Revenue	680m	1.15bn
Net profits	54m	72m
Net per share	0.44	0.58
Six months		
Revenue	1.54bn	2.35bn
Net profits	138m	171m
Net per share	1.14	1.39

Profits decline 23% at Northern Telecom

BY ROBERT GIBBENS IN MONTREAL

NORTHERN TELECOM, the big Canadian telecommunication equipment group, yesterday announced a 23 per cent decline in first half profits, mainly because of lower sales of large digital telephone switches in the US market. However, orders picked up in the second quarter and full-year results are expected to compare favourably with 1985.

Net profits for the first six months of 1986 were C$115m ($83.9m) or 87 cents a share against C$143.5m or C$1.14 a year earlier on revenues of C$2.03bn against C$2.06bn.

In the second quarter, net profits were C$64.9m or 50 cents a share against C$82.4m or 66 cents a share on revenues of C$1.06bn against C$1.1bn.

The order backlog was US$1.57bn at June 30, down 10 per cent from a year earlier, but up 6.5 per cent from March 31. The company expects better margins from all switching equipment in the second half.

● Cominco, the mining, metals and industrial products group controlled by Canadian Pacific, was hit by lower zinc, silver and copper prices in the first half. Sales of lead concentrates and refined zinc and gold improved.

In the first half, Cominco had an operating net loss of C$38.5m against a loss of C$6.6m a year earlier. After special items there was a net profit of C$2.9m against C$2.8m in the first half of 1985. Revenues were C$707m against C$816m.

Operating results are expected to improve in the second half after temporary shutdowns at the western mining and metals operation and at the Polaris mine in the Arctic.

The company said zinc consumption was rising and further restrictions in supply should improve prices. Costs are being pared further and copper operations will benefit from production pooling with another big producer in southern British Columbia.

Australia clarifies options tax rules

BY MARK WESTFIELD IN SYDNEY

AUSTRALIA'S Federal Government has cleared up the confusion surrounding its new capital gains tax as it applies to companies issuing share options.

Companies will be liable for the tax, levied at the 46 per cent company tax rate, only when the options lapse and only on unexercised options.

Under prevailing legislation, passed earlier this year, proceeds from options are taxable in the year of issue if they are not exercised in that year.

While companies are entitled to a refund of tax paid on options if they are exercised in later years, the early payment of the tax effectively amounts to an interest-free loan to the Government for the period the shareholder holds the option.

The change parallels the treatment of options under US capital gains tax. The flaw in the current Australian legislation had threatened to bring to a halt the issue of options as a means of raising capital.

The implications of the original provisions for leading companies which have issued options since the tax came into effect on September 19 last year have only recently become apparent.

CSR, the large resources group, recently restructured a proposed one-for-10 options issue designed to raise A$240m ($US154m) when it discovered that the first A$62.5m was liable for tax of about A$30m. Instead, it issued ordinary shares which are specifically exempt from the tax.

More than 20 companies have made options issues since the tax was introduced, raising almost A$200m. The companies include Mr Robert Holmes à Court's Bell Resources, Sir Peter Abeles' TNT, and smaller companies such as Sunshine Australia, Hastings Deering, and Bridge Oil.

Mr Paul Keating, the Federal Treasurer, warned last night that the Government would closely monitor any moves to exploit the new arrangements for tax avoidance purposes, saying that further provisions would be enacted to prevent this if necessary.

The original provisions of the tax were designed to block the potential for avoiding capital gains taxation through the use of options as part of the sale consideration of assets.

The changes will not affect options issued to acquire shares of another company. This means that Bell will be liable for the tax on the proceeds from an issue of options over BHP equity as part of its recent takeover bid.

The existing arrangements will continue to apply to such issues because they did not involve the creation of new equity. The amendments will apply only to company issued share call options or warrants on new shares and to call options or warrants issued as part of new debt instruments.

These include the option component of convertible notes and debentures which consist partly of a debt instrument and partly of an option to acquire new shares. The changes will not apply to options over assets other than shares.

BTR Nylex lifts interim by 47%

BY MARTIN DICKSON

BTR NYLEX, the Australian quoted subsidiary of BTR, the British industrial conglomerate, yesterday announced a 47.2 per cent increase in interim net profits and said it is to obtain a London listing for its shares by way of an introduction.

The company is one of Australia's leading manufacturers and distributors of plastics and industrial rubber products.

Pre-tax profits for the six months to June 30 totalled A$24.79m (US$15.91m) compared with A$17.98m in the same period of 1985, on sales up from A$149m to A$211m. Net profits before minorities totalled A$15.59m, up from A$10.59m, while earnings for BTR shareholders were up 41.5 per cent to A$14.2m.

Earnings per share totalled 24.7 cents (15.8 cents), while the interim dividend is 10 cents (8.7 cents). The company said demand from Australia's resources, automotive and consumer markets remained buoyant and current levels of order books indicated that it was on course for further progress in the second half.

BTR owns 62.5 per cent of the Australian company, which is quoted on the Melbourne and Sydney stock exchanges and operates largely as an autonomous business.

Mr Alan Jackson, managing director of BTR Nylex, said the company had no plans to raise money in London but was seeking a listing as part of its plans to develop its operations internationally and broaden its appeal to international investors.

See Men and Matters

Pacific Dunlop in US venture

PACIFIC DUNLOP of Australia plans to enter the US polyurethane foam market later this year in a joint venture with Leggett and Platt, the largest component supplier to the bedding and furniture industries in the US, Reuter reports from Melbourne.

The joint venture will operate Leggett and Platt's urethane foam division, which has annual sales of about US$50m from two factories in North Carolina and one in Mississippi. Pacific Dunlop said the move would increase sales of its own foam group to more than A$100m (US$64.2m).

ACM finds larger reserves at Big Bell

BY KENNETH MARSTON, MINING EDITOR

AUSTRALIAN Consolidated Minerals has announced increased ore reserves at its Big Bell gold project near Cue, Western Australia. Ore reserves at the open-pit have been upgraded to 14m tonnes containing 3 grams per tonne gold. In addition, the potential for underground mining operations is now put at 4.5m tonnes grading 4.4 grams gold.

The latest figures result from the continuing exploration work and economic evaluation being funded by Canada's Placer Development group in return for a 50 per cent interest in the venture. So far Placer has spent some A$1m (US$641,850 or £429,300).

Meanwhile, ACM's wholly-owned Westonia mine poured its first gold bar on April 8 and produced 6,085 oz gold in the period to June 17.

HK brewery dealing halted

TRADING IN the shares of San Miguel Brewery, a Hong Kong subsidiary of the San Miguel Corporation of the Philippines, has been suspended, prompting renewed takeover speculation, Reuter reports.

San Miguel officials in Hong Kong said they had requested the suspension on the Hong Kong Stock Exchange.

INTL. COMPANIES and FINANCE

Commerzbank floater in demand

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT

FLOATING-RATE notes were again at the centre of attention in the international bond markets *yesterday with a new* $200m, seven-year issue for Commerzbank.

The deal, following on from Monday's finely-priced $500m issue for New Zealand, met strong demand and traded above its par issue price yesterday afternoon.

Led by Commerzbank itself, it carries interest at the mid-point of the bid and offered rates for Eurodollar deposits in London (Limean). This gives it a higher yield than the New Zealand issue which was priced at six-month *Libid and carried* a premium pricing.

Separately, Commerzbank is offering 200,000 warrants through Morgan Guaranty to buy into a DM 200m, 6¼ per cent issue due in 1996. Officials said the ttwo deals were unconnected.

One factor behind the growth of investor demand in the floating-rate note market is increasing interest in such paper among non-bank investors, who see it as a liquid money market instrument, but this trend has been fuelled by the lacklustre and uncertain *conditions* now prevailing in the fixed-rate sector of the market.

Once again new issue activity here was at a low ebb yesterday with only Osaka Gas of Japan braving the market for a $50m, seven-year, 8¼ per cent deal *priced at 101¼ per cent by lead* manager Nomura International.

The deal was launched at a net margin over US Treasuries of 111 basis points but this was not enough to ensure a favourable response and it traded outside its 1⅞ per cent fees despite light support from the lead manager. Nomura said it belived that there were pockets of demand in Japan for this type of paper and it should eventually be placed especially since the amount was fairly small.

The sterling sector, which has also been in the doldrums because of the weakness of the pound, declining oil prices and political uncertainty, saw a rare equity-warrants deal yesterday. This was a £35m issue for Pilkington Brothers, brought to the market by J. Henry Schroder Wagg. It carries interest at 9¼ per cent over five years and the exercise premium on the warrants has been set at 17 per cent. Pilkington has received favourable attention from broking analysts recently and this may well have helped the deal trade *above its 115 per cent* issue price yesterday afternoon.

In other markets Electricite de France launched an Ecu 200m, 12-year, 7¼ per cent deal at 98 per cent through Banque Nationale de Paris. The deal, half of which takes the *form of a tap stock* exercisable for one year, came too late in the day to trade actively, but initial reaction from the dealers was that the terms were tight given the current low investor demand for Ecu paper.

Warmly received by contrast, was a FFr 600m, 10-year deal for St Gobain, the French industrial conglomerate. Led by Credit Commercial de France this issue carries an adjustable coupon reset each year at 0.2 per cent over the yield on equivalent French state bonds. The *initial* coupon *is 8¼ per* cent and the paper can be exchanged at par for a fixed-rate 7¾ per cent issue. Issue price is 101.

French bankers said the pricing structure was designed to appeal to local investors because of the yield pick-up it offers on domestic paper as well as the protection against a further fall in interest rates.

In Switzerland the Inter-American Development Bank launched a two-tranche SFr 200m issue, comprising SFr 100m in eight-year bonds with an indicated coupon of 5⅜ per cent and SFr 100m in 12-year 5⅝ per cent bonds. Lead manager Credit Suisse is to set the final terms tomorrow. Daiki Aluminium launched a small SFr 25m private placement through Handelsbank.

There were no new issues in Germany, where prices moved slightly higher as dealers detected a modest resurgence of demand. *The new 6¼ per cent* issue for Electricite de France, launched on Monday night, traded at a discount of ⅜ per cent, well within its 2¼ per cent fees.

Swiss bonds were little changed. The SFr 85m, 5⅜ per cent issue for CB-PAK entered secondary market trading at 98, two points down on its par issue price.

Japanese borrowers continue to launch equity-warrants deals with a further crop of three in the dollar sector yesterday all of which carry indicated coupons of 2⅞ per cent, a five-year maturity and exercise premiums of 2½ per cent. The largest was a $50m issue from Nomura for TEC Electronics, while Nikko brought a $30m deal for Japan Development and Construction and Daiwa a $20m issue for Nikken Chemicals.

The $100m issue for Kumagai Gumi led by Daiwa has been priced as indicated with a 3⅞ per cent coupon and an exercise premium of 2½ per cent.

Chase swaps team defects to Schroders

By Alexander Nicoll

A FOUR-PERSON swaps team has been recruited from Chase Investment Bank in New York by Schroders, the UK merchant banking group, and its 50 per cent-owned US investment banking associate Wertheim and Co.

Mr William Slee, managing director of Schroders' credit and capital markets division, said yesterday that the four would complement the group's existing swap operations in London, Sydney and Tokyo. Schroders did not aim to be a big-volume player in the swaps market and is concentrating instead on providing a global service involving more complex transactions deals with bigger profit margins.

The team — L. Winfield Ogden, Diana Quill, Brian Wynter and Evelyn Kung—will be located in Wertheim's dealing room, where it will fit in with the US bank's fixed-income bond, futures and options trading. Schroders paid $100m last month for the Wertheim stake, with the aim of establishing a significant presence in US securities markets.

The defection of the four is the latest in a series from Chase. In March, about a dozen Eurobond sales and trading staff in London left to join Kleinwort Benson.

Fox hedging instrument from Hambros

By Our Euromarkets Staff

HAMBROS BANK yesterday launched a currency hedging instrument combining some of the features of forward foreign exchange contracts and currency options.

The new product is called Fox — Forwards with Optional Exit. It is identical to a forward contract, which fixes the rate at which a bank's customer buys or sells currency at some fixed future date, in all respects but one: that the customer has the right to reverse the contract and thus benefit from currency market fluctuations in his favour. He is still protected from an adverse currency move.

To buy the right to cancel the contract, the customer arranges the forward contract at a rate less favourable than the forward market rate at the time. In this way, he avoids the direct payment of an up-front premium, seen by many corporate treasurers as a disadvantage of currency options. But he can obtain the benefits from a favourable currency market move which a currency option provides, but from which a traditional forward contract would exclude him.

Vienna SE turnover expands

By Our Financial Staff

TURNOVER on the Vienna stock exchange rose to Sch 4.5bn ($302m) in the first half of 1986 from Sch 4bn in the second half of 1985 and Sch 2.4bn in the first half of last year, bourse president Mr Gerhard Wagner said.

Total turnover of listed shares, including transactions by banks off the stock exchange floor, rose to Sch 11.4bn between January and June from Sch 7.9bn in the previous six months and Sch 5.7bn in the first half of 1985.

Mr Wagner described the rate of arrival of new shares on the market as "very satisfying." New capital worth a nominal Sch 1.837bn came to the exchange during the first half of this year at an issue value of Sch 9.345bn — equal to 12.6 per cent of the total market value of listed shares at the end of 1985.

BEC to wind down its business

BY PAUL CHEESERIGHT IN BRUSSELS AND DAVID LASCELLES

BANQUE EUROPEENNE de Credit (BEC), one of the first European consortium banks is to wind down its business.

BEC's shareholders have decided that the bank had run its course, not least because they themselves are adopting different strategies and approaches to the international market. The EBIC group of seven institutions set up BEC as one of four affiliates covering different parts of the world. The EBIC members—Amsterdam-Rotterdam Bank, Banca Commerciale Italiana, Creditanstalt-Bankverein, Deutsche Bank, Generale Bank, Midland Bank and Societe Generale—divided the BEC equity between them.

Originally conceived as a vehicle for medium-term lending, BEC was formed when the shareholders believed that three would be major developments in European financial co-operation—a European commercial bank for Europe.

Latterly, however, the strong growth of securities business as the mainspring of much international banking has left BEC in the cold. Its placement capability is little developed. But this has not stopped it making profits. Last year with a net of $17.8m on a staff of 70, it had one of the highest per capita revenues of any bank in the world. Total assets at the year *end stood at $2.7bn.*

BEC is the Brussels part of the former UK and Belgian-based European Banking Group. The London end was sold to Amro Bank last year. EBIC has also decided to run down European Arab Banking Group. European Asian Bank has passed into the control of the Deutsche Bank, and Euro-Pacific Finance Corp was sold to the Toronto Dominion Bank.

European American Bancorp continues to operate in the US.

FT INTERNATIONAL BOND SERVICE

Listed are the 200 latest international bonds for which there is an adequate secondary market.

Closing prices on July 22

US DOLLAR STRAIGHTS — Issued | Bid | Offer | Change on day | week | Yield

[illegible]

DEUTSCHE MARK STRAIGHTS — Issued | Bid | Offer | Change on day | week | Yield

[illegible]

SWISS FRANC STRAIGHTS — Issued | Bid | Offer | Change on day | week | Yield

[illegible]

YEN STRAIGHTS — Issued | Bid | Offer | Change on day | week | Yield

[illegible]

OTHER STRAIGHTS — Issued | Bid | Offer | Change on day | week | Yield

[illegible]

FLOATING RATE NOTES — Spread | Bid | Offer | C.dte | C.cpn | C.yld

[illegible]

CONVERTIBLE BONDS — Cnv. date | Cnv. price | Bid | Offer | Chg. day | Prem

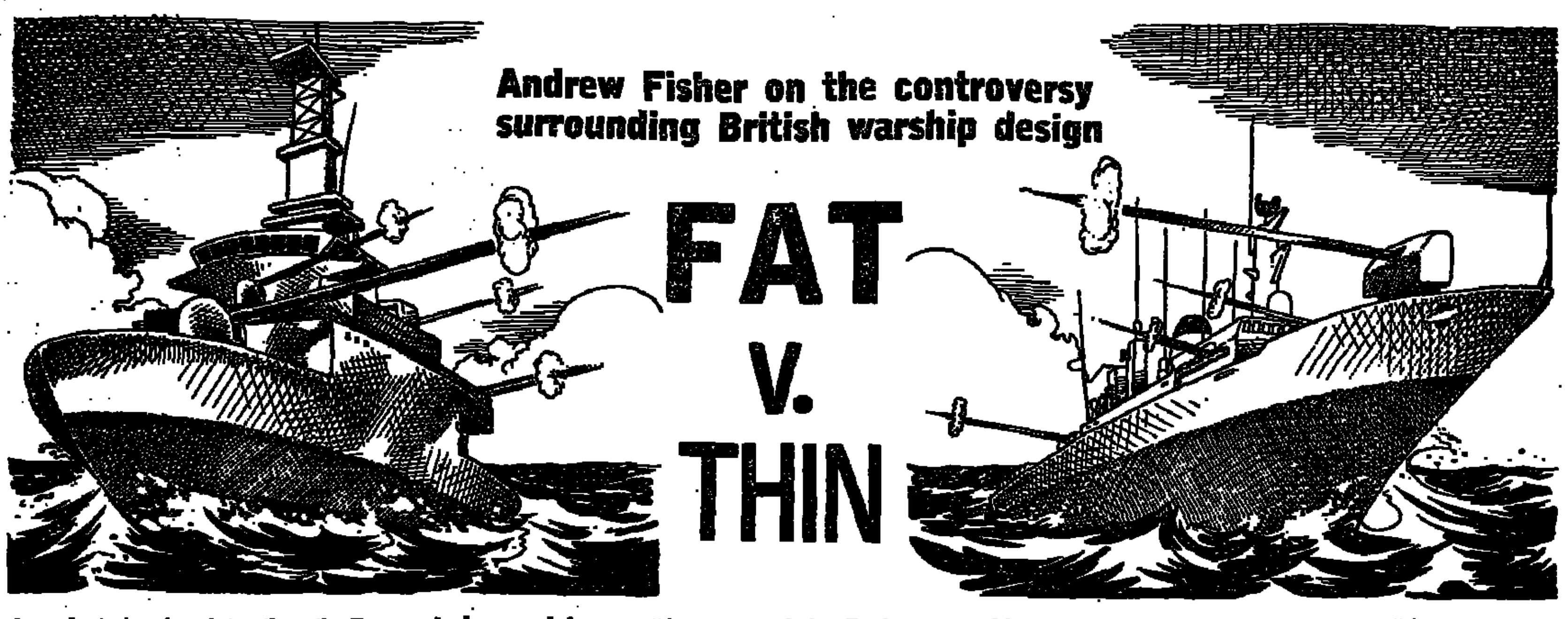
[illegible]

* No information available—previous day's price.

† Only one market maker supplied a price.

[illegible]

TECHNOLOGY



WHICH IS BEST? Long and thin, or short and fat? The question is not whether people should be slim or tubby, but whether Britain's costly warships should be lean and greyhound-like, or broad, full-figured and possibly cheaper.

It is a controversy which has lasted around 10 years and stubbornly refuses to die. Many bitter words have been expended over whether the traditional long, thin warship design favoured by the Royal Navy should be replaced by a short, fat one.

Two events have given the debate a new impetus. First, the expert appointed to head an independent inquiry into the opposing designs resigned after his impartiality was called into question. And second, the Government has just ordered three £115m Type 23 frigates which will be far from short and fat.

Broad and shorter ships, say their supporters, would be cheaper to build and operate, but able to carry more weapons and equipment and provide ampler accommodation. Their opponents, who have so far won the day, argue they are potentially unstable, would need bigger engines, and would be less manoeuvrable.

It is not quite a tussle between the establishment and feisty outsiders, struggling to have their design accepted by disbelieving officials. Several establishment figures have suggested that the short, fat design, aggressively proposed by Mr David Giles, a director of Thornycroft Giles, against the Government's own sceptical naval architects, should be more thoroughly evaluated.

Even the Prime Minister has entered the fray. Without coming down on one side or the other, she has set up an independent inquiry into the controversial issue. This followed an unofficial inquiry headed by Lord Hill-Norton, former chief of defence staff.

Lord Hill-Norton said, when announcing the results of the inquiry, that Britain had "a bloody good navy that must be given bloody good ships." Calling for an official inquiry, he added provocatively: "If vested interests get a bloody nose in the process, so be it."

The official study, which may or may not cause blood and bruises, has yet to get under way. The resignation of Professor John Caldwell, appointed to head the inquiry, injected a further dose of controversy into an issue which has already been well aired in the courts, the Press and wherever defence experts discuss the issues of the day.

He resigned before he had even started assembling a team to do the study. Stung by allegations that he was not impartial, having been a non-executive directorship with a design subsidiary of British Shipbuilders (BS), he decided to step down.

Both Professor Caldwell, who teaches naval architecture at Newcastle University, and the Government insisted there was no question of bias. The question arose because state-owned BS used to build and design warships, before its naval yards were privatised. Mr Giles said his impartiality must be open to question.

Thus, regretfully Professor Caldwell has left the task, which could take up to nine months, to someone else — the Hill-Norton Committee said a judge or Queen's Counsel should be chosen — who will appoint a team of experts. "*It would be* a disservice to all concerned, if at the end of a long inquiry, there were doubts about impartiality," Professor Caldwell said ruefully."

The issues that the inquiry will have to consider are basically these:

● Will a short, fat ship be easier to build than a long, thin one? Traditional hulls are built of high-grade, and so expensive, steel, for strength. Their narrowness makes fabrication costly and means installation of machinery, weapons and accommodation is awkward and expensive.

The Hill-Norton Committee Report, called Hull Forms for Warships, said: "It is claimed that a radical alternative in the shape of a short/fat hull form would provide very substantial advantages in building and maintenance costs, in construction time, and in simplicity of layout, with no operational penalties." Cheaper and heavier steel would be used.

Frederikshavn Vaerft, a Danish yard associated with Thornycroft Giles, has suggested that unit costs could be cut by 25 per cent. It has already built a smaller version of the S90 (a short, fat frigate designed by Thornycroft Giles) known as the Osprey, an offshort patrol vessel which was based on the Azteca patrol craft bought by the Mexican navy.

If the lower cost was confirmed, the Hill-Norton report said, "a wide degree of flexibility is at once offered to the Royal Navy with the choice of a major increase in military capability or a corresponding reduction in the *procurement budget.*"

● Would it be seaworthy? Again, arguments vary widely. The Hill-Norton committee said this was the most controversial matter it examined. The short, fat Sirius S90 frigate would be around 310 feet long, compared with 370 feet for the Leander class frigates, built in the late 1960s.

Long ships are generally regarded as going more cleanly through the water. But tests *have suggested* the S90 would handle waves better than existing frigates, with "hydrodynamic lift" giving a planing effect at the wide stern through high pressure under the hull. This would reduce resistance, saving fuel and enabling higher speeds to be achieved.

The Hill-Norton report criticised earlier conclusions by the Hull Committee of the Defence Scientific *Advisory* Committee (DSAC), based on computer predictions, that the lift effect shown in models would not occur to the same extent in full-size ships. "This has now been established to be quite untrue."

● Would it do the job? The S90's supporters argue that because of its broader beam, 63 ft against 43 ft for the Leander, *weapons could be sited* more easily on deck, helicopters operated more effectively, and more machinery could be *installed within the ship*. Also, the higher superstructure would allow a greater range of radar sweep.

Its detractors state that the upper deck length would be too short for satisfactory weapon layout. The ship would also be too noisy for towed anti-submarine sonar equipment.

Summing up the objections, Sir Lindsay Bryson wrote when still Controller of the Navy in 1984 that studies of Sirius by the DSAC and YARD, a design consultancy, "confirmed our own assessment that the S90 design failed to meet the requirement on most of the important characteristics and that some claims made on its *behalf could not be substantiated.*"

Thus after all the arguments and counter-arguments, the jury is still out on the S90. The inquiry has yet to start work and the legal action by Mr Giles against British Shipbuilders for alleged infringement of copyright has still to be settled in the High Court. Giles claims BS used his design in a patrol boat sold to Hong Kong.

Lord Hill-Norton hopes the matter can be settled soon, since several months have elapsed since his committee's report was submitted to the Prime Minister in April. "I want the inquiry either to validate or reject our conclusions. I want the whole thing to go away and be put to bed."

That may be more easily said than done. The debate over long versus thin has kept experts busy for more than 100 years. Back in the 1860s, naval *constructors* were *earnestly* discussing the merits of long and short iron-clads. In the 1980s, passions have run even stronger.

In the end, the debate revolves around money. The Royal Navy's ships are expensive. The Type 23's cost is well above original estimates. Britain has not exported a big warship since the 1970s. "They are too bloody expensive," says Lord Hill-Norton. Thus the nub of the long, thin versus short, fat controversy is whether more, but equally effective, ships can be built for the same money.

Fashionable way to watch the money grow

WORTH WATCHING

EDITED BY GEOFF CHARLISH

PRODUCTION operators in the clothing industry, usually paid on an incentive basis, can see how their earnings are accumulating, while management can track production using a system called Satellite developed by Nestar of Uxbridge, UK (0895 58831).

Each operator has a small box containing a microprocessor and liquid crystal display. The boxes are connected to a personal computer, one of a number used for management purposes on a Nestar local area network (LAN).

The system sets the operators' standard time to make a garment into the boxes in response to requests by operators and as they proceed with their work they can monitor their own efficiency and how they are keeping to target times. The data is used to provide operators with total wage to date and average earnings per hour.

Data on production rates is shared by PC users on the LAN to make up wages, monitor production targets and keep track of orders.

A £75,000 system is on test at J&J Fashions in South Shields, England, with 150 boxes and four IBM PCs. An overall productivity increase of 11.5 per cent has been achieved.

VOICEBOOK IS the name of a new annual publication from the Eurodata Foundation which aims to provide information about Europe's telephone services, as the Foundation's Yearbook has done for data communications services for the past 10 years.

Covering the 18 member countries in detail, the book looks at network and exchange-based services, mobile telephony, equipment and maintenance, network technical data, tariffs and the available literature.

The Foundation believes that in many cases, Voicebook will enable planners and designers to define and evaluate proposed voice networks without reference to other information sources.

Voicebook costs £112.50 with an update of tariffs after six months. More from Mrs L. M. Porter in London on 583 0567.

ELECTRONIC WHITEBOARDS, offering a vertical surface on which a presenter can write and draw for an audience and can then make copies on A4 paper to pass round, are offered by Fujitsu.

Called CopyBoard, the unit presents five writing surfaces in sequence from a "roller blind" arrangement. After writing on one, it scrolls on to the opposite roller and at the same time is scanned by a vertical-line facsimile recording arrangement. In a short time the whiteboard's written material appears on A4 paper from a slot at the machine's front.

Electronic whiteboard from Fujitsu of Japan. Called CopyBoard, the unit is capable of making quick copies of work done on the board for distribution to an audience.

An advantage of the Fujitsu machine, which costs under £2,000, is that one, two or four of the writing areas can be printed on an A4 sheet—the machine reduces them to suit.

Diagrams, schedules, budgets, sales targets, can all be prepared spontaneously or in advance and updated during the meeting if necessary. Fujitsu is in London on 01 408 0043.

The staring camera that takes shots in the dark

INFRARED CAMERAS that are not scanned in the usual way but "stare" at the scene as a whole like a normal film camera have been developed by Hughes Aircraft in Canoga Park, California.

The infrared scene is focused by a lens on to a special chip which captures the whole image on a fine matrix of picture elements (pixels) which are read out into a computer.

The main advantage is that there are no moving mirrors and other parts associated with scanning. The camera can see in the dark at a resolution comparable with present TV cameras.

ELECTRIC MOTORS only 12.5 mm in diameter and 8.5 mm long are available from Muirhead Vactric Components of Beckenham, Kent, UK (01 650 4888).

Aimed at high precision and military applications, the tiny motors are of brushless design, avoiding corrosion problems in storage, and use a samarium-cobalt high efficiency permanent magnet. They are stepper motors (four 90 deg steps per revolution) and can rotate at up to 9,000 rpm, so that a typical application is in the accurate positioning of small components—the original application was to scan a small dish-aerial in a missile.

FT COMMERCIAL LAW REPORTS

Pails collapse on Kuwaiti quayside

Court of Appeal (Lord Justice Lloyd, Lord Justice Fox and Lord Justice Nicholls). July 16.

GOODS ARE of merchantable quality if they are fit for any of the purposes within the range of purposes for which they are normally bought; and accordingly, heavy duty pails which are suitable for export and which have been successfully used in many parts of the world, are not rendered unmerchantable by the fact that they collapse when left stacked high on a quayside in intense heat.

The Court of Appeal so held when dismissing an appeal by the liquidator of Lupdine Ltd., *from Mr Justice Neill's decision* in third party proceedings that goods supplied to it by Thurgar Bolle were of merchantable quality. An appeal by Aswan Engineering Establishment Co. from the judge's decision in the main action that Thurgar owed no duty to it in tort was also dismissed. The appeals arose in proceedings by Aswan as plaintiff against Lupdine as first defendant with Thurgar as third party, and against Thurgar as second defendant.

Section 14 of the Sale of Goods Act 1979 provides: "(2) Where the *seller sells goods in* the course of a business, there is an implied condition that the goods . . . are of merchantable quality . . . (3) Where . . . the buyer expressly or by implication, makes known . . . any particular purpose for which the goods are being bought, there is an implied condition that the goods . . . are reasonably fit for that purpose . . . (6) Goods of any kind are of merchantable quality . . . if they are as fit for the purpose or purposes for which goods of that kind are commonly bought as it is reasonable to expect having regard to . . . description . . . price . . . relevant circumstances."

* * *

ASWAN ENGINEERING ESTABLISHMENT CO v LUPDINE LTD & CO

LORD JUSTICE LLOYD said the Lupdine manufactured a waterproofing compound known as Lupguard. Aswan was a construction company carrying on business in Kuwait. In June 1980 Aswan bought a quantity *of Lupguard for* shipment to Kuwait. It was packed in plastic pails manufactured and supplied by Thurgar.

The pails were stacked five to six high in containers, 702 pails per container. When the containers arrived in Kuwait they were left *standing* on the quayside in full sunshine. The temperature inside them reached 70 degrees Centigrade (158 degrees Fahrenheit). It was as if the plastic pails had been put in an oven. The pails collapsed and there was a total loss of the Lupguard.

Aswan claimed in contract against Lupdine. Lupdine brought in Thurgar as third party. Aswan then joined Thurgar as second defendant, alleging liability in tort.

Aswan succeeded against Lupdine. Damages were agreed at £118,811. As for its claim against Thurgar, Mr Justice Neill held that Aswan failed to show the requisite proximity to give rise to a duty of care.

The judge dismissed Lupdine's third party claim against Thurgar. He found that the pails were of merchantable quality within the meaning of section 14(6) of the Sale of Goods Act 1979, and that no particular purpose was made known to Thurgar so as to give rise to liability under section 14(3).

Mr Aikens, for Lupdine's liquidator, attacked both findings.

The evidence was that the *pails would not have failed* had the temperature been 52 degrees Centigrade (122 degrees Fahrenheit) or below; and they would not have failed at 70 degrees had the rows been separated horizontally with wooden battens. They had been used for export to other parts of the world without mishap.

The judge's conclusion as to merchantable quality would have been unassailable on the law as it stood before the Supply of Goods (Implied Terms) Act 1973 which introduced the definition of "*merchantable quality*" *now* contained in section 14(6) of the 1979 Act. "Merchantable quality" was not defined in the Sale of Goods Act *1893*, but by 1973 the law had developed so that its meaning had become tolerably clear.

The position was that in order to comply with the requirement of merchantable quality under section 14 (2) of the 1893 Act *goods did* not have to be suitable for every purpose within a range of purposes for which goods were normally bought under that description. It was sufficient that they were suitable for one or more such purposes without abatement of price, since if they were, they were commercially saleable under that description.

Mr Aikens submitted that that state of affairs had been changed by the definition of "merchantable quality" introduced in 1973.

He said the definition referred to the "purpose or purposes" for which goods were bought, as distinct from "a purpose" in the singular. Therefore, he said, the goods were not merchantable unless they were as fit as was reasonable to expect for *all* the purposes for which they were commonly bought; it was no longer sufficient that they *should be fit for one such* purpose.

If Parliament had intended to enact what Mr Aikens *submitted was the meaning of sec*tion 14(6), the definition would surely have referred specifically to "all" purposes, not just "the purpose or purposes."

Since the definition presupposed that goods of any kind might be sold under more than one description, it followed that the definition had of necessity to refer to more than one purpose.

That was the true and sufficient explanation for the reference to "purposes" in the plural. It would be wrong to infer from the use of "purpose or purposes" that Parliament intended any such far-reaching change as that for which Mr Aikens contended.

In the present case, assuming that the description applied to the pails was that they were to be heavy duty pails for export shipment, they were perfectly suitable for that purpose and therefore of merchantable quality within the definition.

Mr Aikens also relied on an implied term under section 14(3). It was said that Lupdine made known to Thurgar that *the pails were wanted for* export; that that was a stated purpose distinct from domestic purposes; and that the purpose was sufficiently defined to be a "particular purpose" within section 14(3). Since the pails were not suitable for exporting to the Middle East, it was argued, Thurgar was in breach of section 14(3).

Section 14(3) depended on *reliance. Unless the buyer* relied on the seller's skill or judgment in selecting the appropriate goods for the stated purpose, *there was no implied con*dition. The circumstances clearly showed that Lupdine never relied on Thurgar's skill or judgment in any relevant sense at all. There could be no question of an implied condition under section 14(3).

Lupdine's appeal in the third party proceedings should be dismissed.

Aswan appealed against the judge's decision in favour of Thurgar in the main action as to the scope of the manufacturer's duty in tort.

Mr Aikens argued that Aswan had suffered physical loss or damage to the Lupguard. If that should have been foreseen, as he submitted it should, Aswan could recover on the principle in *Donoghue v Stevenson*, namely the manufacturer's duty of care not to cause foreseeable damage to person or property.

He relied strongly on *Muirhead v Industrial Tank Specialities 1985 3 WLR 993* which related to tortious liability for *dangerous products*. There motors were supplied from France for pumps which circulated water in lobster tanks in the UK. The motors were of the wrong voltage. They cut out and the lobsters died. Judgment was given against the supplier of the motors for the cost of the pumps, loss of profits and the death of the lobsters.

There were two distinctions between *Muirhead* and the present case. First, in Muirhead the physical damage to the lobsters was physical damage to other property of the plaintiff.

If Aswan had bought empty pails from a third party and used them for exporting Lupguard, there would have been damage to other property belonging to the plaintiff. But *the property in the pails and in* the Lupguard passed simultaneously. Aswan was buying Lupguard in pails, not Lupguard and pails.

The second distinction was that in *Muirhead* the judge found that the defendant knew the motors were going to be incorporated in pumps for use in fish farms in the UK, whereas in the present case Thurgar did not know the pails were going to be used for export to the Middle East where they would be stacked six high in temperatures of 70 degrees Centigrade.

The scope of the manufacturer's duty did not extend beyond what was reasonably foreseeable.

The type of damage which occurred and the conditions in which it occurred were altogether outside the range of what was reasonably foreseeable and therefore outside Thurgar's duty of care.

Lord Justice Nicholls gave a concurring judgment. Lord Justice Fox agreed.

For the liquidator of Lupdine and for Aswan: Richard Aikens QC (Ince & Co).

For Thurgar: AW Stevenson (Kennedys).

By Rachel Davies
Barrister

UK COMPANY NEWS

GKN fails to clinch sale of steel stocks division

BY NICK GARNETT

THE PROPOSED sale of GKN Steelstock, the UK's largest steel stockholding company, to a group of private US investors has been abandoned.

Guest Keen and Nettlefolds, which announced last month that it had agreed in principle to sell the business, said yesterday that it had been impossible "to reach agreement on all the detailed matters involved."

The company would not comment further, but the sale foundered before detailed negotiations began on price. It was the so far undisclosed size of the initial offer which tempted GKN to begin negotiations.

GKN Steelstock made a slim profit last year on sales of £197m and employs 1,750. The company is the last remaining direct steel-related business within GKN but the company had said it was content to keep the business within the group.

It said yesterday that this was still the case, though serious consideration would be given to any good offer.

The American investors, whose names have never been disclosed, are steel stockholders though their activities are concentrated in products other than those in which GKN specialises.

There are some suggestions that the Americans, who are not involved in steel making, wanted to hive off parts of the GKN operation.

The proposed sale of GKN's stockholding business came as a surprise to the rest of the industry. Profits tend to be marginal partly because of severe competition.

Some 350 companies operate as steel stockholders in the UK of which the largest 200—in the National Association of Steel Stockholders—account for 80 per cent of turnover.

Sales from stockholders in the UK last year totalled £1bn and they hold in stock at any one time about 800,000 tonnes of steel.

The financial performance of stockholders improved last year after the miseries of the recession but prices have begun to destablise again. The industry blames weak demand, continuing steel production overcapacity in Europe and rising imports of Third World steel.

Zale may sell UK side to CES

By David Goodhart

Zale Corporation, the world's biggest fine jewellery retailer, confirmed yesterday that negotiations over the sale of its UK subsidiary to Combined English Stores Group were at an advanced stage. The price tag for the 112-shop subsidiary, which trades under the Zales, Leslie Davis and Regent names, is thought to be about £38m.

Lazard Brothers, the merchant bank in charge of the sale, denied the claims of Mr Graham Morgan, the Zales UK finance director, that several British directors were unhappy with the terms of the sale and the lack of consultation with them during the negotiations.

Mr William Robins, the Zales UK managing director was unavailable for comment yesterday, but in a statement released by Lazard Brothers said: "The approach from CES is fully supported by all UK directors, who look forward to the continuing success of Zales Jewellers as part of the CES Group."

Zale Corporation believes that its British subsidiary will be complementary with Collingwood, the jewellery subsidiary of CES.

Mr Morgan, the dissident director, alleges that a higher offer has been made by another company but that it has been denied vital information. He also admits that this un-named company has no jewellery interests at present and would thus be less likely to sack the Zales senior management. Lazard Brothers is dismissive of the claim that a higher bid has been made.

Coloroll accepted

The recommended offer by Coloroll for Staffordshire Potteries was declared unconditional yesterday.

Acceptances had been received in respect of 2.47m (43 per cent) of the ordinary shares, which, together with the 497,000 ordinary (8.7 per cent) owned before the offer announcement, took Coloroll's holding to 51.8 per cent.

The ordinary and the preference offer, together with the respective cash alternatives, remain open until 3 pm on August 5.

Mountleigh talks with United Real

By William Cochrane

Mountleigh, the fast-growing property group, has been in takeover talks with United Real Property Trust, the property investment and development company which said last week that some of its shareholders had been approached to sell their shares.

Mr Tony Clegg, chairman and chief executive of Mountleigh, said yesterday that talk of a bid for United Real was premature. "We have been talking to them," he confirmed, but a lot of water will flow under the bridge before we get there—if we get there."

In the past two days United Real's shares have been trading close to their 1986 high of 900p, up from 525p this year. Mountleigh's interest in the company, said Mr Clegg, was in the redevelopment potential and marriage values inherent in its 14 major office blocks; all but two are in the City or West End of London.

Mountleigh itself has a high investment rating in the City, partly because of judicious acquisitions which the company has made, and partly due to ambitious development plans which include a £50m retail and leisure park outside Leeds, and the Effra site on the South Bank of the Thames near Vauxhall Bridge.

Unigate in £26m agreed bid for Oldacre

BY LISA WOOD

Unigate, the dairy, food and transport group, is to make an agreed bid, worth about £25.8m for Oldacre, the Gloucestershire-based animal feeds manufacturer, grain and seed trader and vehicle distributor.

Unigate, a major poultry producer, said the proposed acquisition was in line with strategic objectives to increase its poultry operations which accounted last year for about 10 per cent of group operating profits of £91.4m.

Mr Daniel Hobson, group finance director, said: "One of our major costs in poultry production is food, but we did not have a feed milling facility. In addition, Oldacre has vehicle distribution franchises for Volkswagon, Audi and Volvo and Mercedes Benz commercial vehicles. They will complement our Wincanton motor group, which is the third largest vehicle distribution franchise in the UK."

The offer will be 183p cash for every Oldacre share, placing a value on Oldacre of approximately £25.8m, and represents a premium of about 75 per cent to the share price immediately prior to the announcement of the bid.

In addition, an accepting holder can elect to receive three Unigate shares for every five Oldacre shares plus 30p in cash. Irrevocable undertakings to accept have been given by 51.6 per cent of shareholders, who include the directors of Oldacre and members of their families.

The share price of Unigate closed last night at 283p per share, up 1p, and that of Oldacre at 183p per share, up 78p.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interim: Fleming Fledgeling Investment Trust.

Finals: Bespak, Dowty, Elbief, Equipu, Great Universal Stores, Jacksons Bourne End.

FUTURE DATES

Interims—

AMS Industries	July 28
Continental Assets Trust	July 28
River Plate and Gen. Inv. Trust	July 24
Woodhouse and Rixson	Aug 12
Yorkshire Chemicals	Aug 6

Finals—

Alva Investment Trust	July 29
Scottish English and European Textiles	Aug 7
Tomkins (F. H.)	July 28

Martin Dickson looks at the sale of Imps' hotels and restaurants

Classic Hanson style

CLASSIC HANSON. That is the strategy that has emerged at Imperial Group, the tobacco-to-brewing conglomerate, in the three months since Hanson Trust won a bitter £2.6bn takeover battle last April.

The first major results of the Hanson style came this week when the group announced that it had reached agreement to sell Imperial's hotels and restaurants interests to Trusthouse Forte for about £190m.

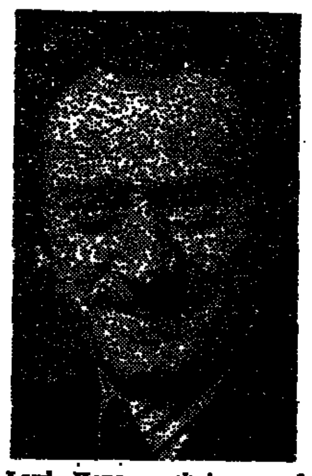
Other substantial disposals are expected over the coming months, including Golden Wonder, Imperial's snacks and crisps business. Hanson has also indicated it might be prepared to consider the disposal in the autumn of Courage, Imperial's brewing business, provided the price was high enough—probably about £1.5bn.

The sales form part of a Hanson management philosophy which has been tried again and again in acquisitions down the years and helped the group grow from humble beginnings in the 1960s into one of the UK's leading industrial groups.

Elements include an immediate attack on the target company's bureaucracy and central overheads, coupled with the devolution of responsibility to line managers.

At Imperial, for example, some 260 out of 300 of the group's central office staff have been made redundant and surplus divisional London properties are being sold. Hanson is itself expected to move its headquarters into Imperial's main London office at Hyde Park Corner, with some of the floors let to other tenants.

Second, there is usually much tighter control over capital expenditure, with outlays strictly monitored and approved by Hanson's central management team. The effects of this have yet to be seen at Imperial.



Lord Hanson, chairman of Hanson Trust

Third, there is often a rapid disposal of assets—usually at very good prices—which Hanson does not deem part of its core activities, usually at very good prices, thus quickly recouping a substantial part of its outlay on the takeover target. Just how much it sells off can vary widely. London Brick, a 1984 purchase, remains largely intact, while UDS, the retail group acquired for £260m in 1983, was largely dismembered, though Hanson retained the profitable Allders subsidiary, which runs stores and duty free shops.

It is a strategy which in the past has led to accusations of "asset-stripping," though Hanson's popularity in the City shows that many fund managers and analysts view the group as a useful and (highly profitable) scourge to under-performing managements.

Certainly, the initial response among analysts yesterday appeared to support the action so far unveiled at Imperial. Hanson is regarded as having got a good price from Trusthouse Forte for Imperial's 30 Anchore hotels, 74 Imperial Inns restaurants, 75 Happy Eater roadside restaurants and five Welcome Break service stations, which produced pre-tax profits of £9m in the year to October on turnover of £111m.

And the catering business is not one in which Hanson has any expertise in the UK.

However, some controversy might be stirred up if Hanson goes ahead and sells Golden Wonder. It hopes to clinch a deal with an unnamed buyer for around £95m, possibly by the end of this month.

During last spring's takeover battle, Imperial agreed to sell Golden Wonder for £54m to Dalgety, the food and agricultural group, to prevent monopoly problems with its rival plan to merge with United Biscuits. At the time, Hanson attacked Imperial for selling Golden Wonder far too cheaply—which its own price tag has shown to be correct—but it also said that it would retain the business if it won.

Lord Hanson, chairman of Hanson Trust, now says that after examining the Golden Wonder, which suffered a damaging strike last year, leading to a loss of market share, the group felt it would probably fare better in other hands.

As for Courage, he says he has no immediate disposal plans, though "if someone was prepared to offer us a day-after-tomorrow's price today we would look at it." But any approach would need to be pitched in excess of the division's asset backing, which he puts at £1.26bn to £1.3bn.

However, there are unlikely to be any serious discussions on Courage until the Monopolies Commission has passed judgment—probably in September—on the proposed bid for Allied-Lyons, the food and drinks group, by Elders IXL of Australia. Elders might well bid for Courage if thwarted at Allied.

Whatever the outcome, Lord Hanson believes that the recent apparent change in the UK takeover climate, making it harder for hostile bids to succeed, means that brand name assets sold by a willing vendor such as Hanson will command a premium price.

If he does sell Courage, together with some more peripheral Imperial interests, such as confectionery, tobacco and newsagents' shops, this will leave him with two major Imperial businesses:

● Imperial Tobacco, which includes the Players and Embassy brand names. It has very strong cash flow and produced operating profits last year of £123m on turnover of £2.6bn.

● Imperial Foods (minus Golden Wonder) which includes the Ross and Young's frozen foods businesses. It produced profits last year of £33m on turnover of £718m. Lord Hanson says he is keen to build this business up.

City analysts doing rough, back of envelope calculations last night suggested that after the disposals Hanson could end up having paid around £1bn for assets producing pre-tax profits of around £150m—a reasonable figure though not outstandingly cheap for the sectors.

"The real question," said one analyst, "is just how much Hanson will be able to make the tobacco and food businesses sweat by cutting costs and thus boost its return."

Greycoat puts its PHIT case

BY CLARE PEARSON

Greycoat Group, the property development company, has outlined the case for its £109m hostile takeover bid for Property Holding and Investment Trust in a document posted to shareholders yesterday.

Greycoat contended that a merger with PHIT could create the "premier asset growth group in the property sector."

Greycoat is offering 55 shares, or 46 shares plus £23.50 nominal unsecured loan stock for every 100 PHIT ordinary share. At yesterday's Greycoat closing price of 248p, unchanged on the day, the all share offer valued each PHIT share at 136.4. There is a cash alternative of 137.5p.

PHIT shares closed down 1p at 147p.

In the document, Greycoat contrasted PHIT's "rent collecting" property investment policy with, what it called, its vigorous development programme. It claimed PHIT's present £76m development programme was uncharacteristically large for company and included the purchase of long-lease investment properties.

Greycoat added that PHIT committed only £28m to the programme, of which it had already spent £14.7m on an investment property.

Greycoat said it had a £350m development programme and the acquisition of PHIT would give it the asset backing perhaps to double this programme, and "retain almost all development profit for its shareholders.

Greycoat said that merger negotiations with PHIT earlier this year had broken down principally because of the insistence of PHIT's chairman, Mr Arthur John, that he should remain as an executive director, even though he planned to retire in two years' time.

Mr Sidney Bookman, PHIT's managing director yesterday denied that this was the principal point of disagreement. He said that negotiations had broken down as Greycoat had progressively trimmed the value of its offer, from an initial 61 shares for every 100 PHIT shares.

Mr Bookman also questioned the basis of Greycoat's claim that its shares had outperformed PHIT's.

"Taking a four-year period, Greycoat said that its net assets per share had grown by an annual compound rate of 16 per cent, whereas PHIT had achieved only 8.6 per cent.

Pearl Assurance, 18.8 per cent is the largest shareholder in PHIT, rejected Greycoat's offer when it was initially announced earlier this month.

Greycoat is being advised by N. M. Rothschild, and PHIT by Kleinwort Benson.

Plessey eases share trading in New York

By David Goodhart

Plessey, which is awaiting to hear the Monopolies Commission verdict on the £1.2bn bid for it from GEC, announced yesterday that it is making it easier for its shares to be traded on the New York Stock Exchange.

It is converting dollar ordinary shares, which were issued in 1970 for the acquisition of Alloys Unlimited into ordinary shares. Like the dollar shares they have to be converted into American Depositary Receipts to be traded.

The number of dollar shares in issue has been dwindling steadily to such an extent that their marketability has become restricted. There are at present 10.3m dollar shares in issue, valued at about £22m.

Plessey said the move was "basically an administrative clearing up" which will make it easier to issue new shares to interested American investors.

LEDA INVESTMENT Trust reports net revenue of £163,479 (£155,620) for first six months of 1986. Earnings per income share were 3.28p (3.12p) and net asset value per capital share at period-end was 245.6p (176.4p). Interim dividend, to reduce disparity, is 2.84p (2.45p), and directors intend second interim of at least 4.2p.

Tod acquisition and rights issue

Tod, the USM-quoted fibre composite producer, has bought privately-owned Harrow-based specialist sub-contractor Streaker Construction in an agreed deal. The initial cost is £1.75m with a deferred consideration related to profit performance.

Simultaneously, Tod which is 77 per cent owned by C. H. Beazer, the construction group, has estimated that its pre-tax profit for the year ended June 30 1986 will not be less than £1.3m. It intends to pay a final net dividend of 2p net per share, making 3.3p for the year, a 20 per cent increase over last year.

Tod is financing the acquisition of Streaker effectively by a one-for-five rights issue, with 77 per cent of the new 125p shares which will be eligible for 2p dividends, being taken up by C. H. Beazer.

Streaker's two shareholders, Mr D Sperden and Mr B Ashenden, will receive 1.4m Tod shares, which they will sell to Beazer. Beazer will then offer 320,000 of these to other Tod shareholders, who hold 23 per cent of its ordinary share capital.

Tod said this arrangement would speed up its purchase of Streaker and would eliminate the goodwill which would otherwise have arisen when Streaker was consolidated in Tod's accounts.

Tod may have to pay Mr Sperden and Mr Ashenden further amounts in three tranches if Streaker achieves agreed minimum profits in the course of the next three years.

Beazer has indicated that it wishes to sell a further 680,000 Tod shares if this can be done at a premium over the 125p price of the shares issued to pay for Streaker.

COMPANY NEWS IN BRIEF

J. T. PARRISH, property company, reported pre-tax profits of £90,000 (£248,000 loss) on turnover of £189,000 (£1.81m) for the year to January 31 1986. During the period, the company ended its department store activities in Newcastle-upon-Tyne and there were changes in the board make-up. Earnings per share came out at 8.2p (33.8p losses) and again there was no dividend.

SCOTTISH AMERICAN Investment has declared a second interim dividend of 1.8p and intends that quarterly payment will represent a level that can be maintained. Shareholders can expect to be paid a minimum of four times the latest interim in the following 12 months. At EGM called for August 20 proposed share split and scrip issue, which would give four shares for every one now held.

SHELL UK's recommended offers for Den Brothers Bulst have become unconditional. Acceptances were received in respect of 97.3 per cent of the ordinary and 96.6 per cent of the preference capital.

FLEMING ENTERPRISE Investment Trust is lifting its dividend to 9p net for the year ended June 30, 1986 (8.5p) with a final of 6p. Earnings were 9.14p (8.58p). Net asset value 431.3p (319.1p). Gross revenue was £1.6m (£1.44m) including investment income £1.36m (£1.1m). Revenue balance £1.3m (£1.2m) before tax £386,000 (£345,000).

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding div.	Total for year	Total last year
AAH	4.86	—	4.13	7.8†	6.79
Ashdown Inv ...int	‖nil	—	1	—	3.1
British Bloodstock	‡5.3	—	5.5	8.8	8
Consultants (C&P) int	‡0.7	—	0.2	—	0.75
Fleming Enterprise	6	Sept 25	6	9	8.5
Goring Kerr ...int	3.8	Sept 1	3.5	—	10.5
Kenyon Secs	7	Oct 1	6.25	10.4	9.38
Lancs & London Inv int	2	—	2	—	7.13
Leda Inv ...int	¶2.84	—	2.45	—	6.65
St Andrews Tst ...int	¶1.25	—	1	—	2.9
Scott Amer Inv 2nd int	1.8	—	—	—	6.55

Dividends shown in pence per share except where otherwise stated. * Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock. ¶ To reduce disparity. ‖ In view of offer for shares.

UK COMPANY NEWS

Vestric boosts AAH to £18.3m

BOOSTED IN its pharmaceuticals division by a first-time contribution from Vestric, the AAH Holdings group turned in a pre-tax profit 62.5 per cent ahead from £11.25m to £18.28m for the year ended March 31 1986.

Mr Bill Pybus, chairman, said Vestric continued to gather momentum as a result of the reorganisation programme and integration with the group's pharmaceuticals supplies division. The group was now Britain's largest pharmaceuticals wholesaler.

Earnings rose from 12.6p to 17.76p; and a final dividend of 4.86p lifts the total to 7.8p (6.79p) net.

On the current year the chairman said he was not anticipating progress as considerable or dramatic. Results for the first quarter were encouraging.

The expanded base of group activities created wider opportunities for further growth, which were being pursued.

In 1985-86 turnover expanded 87 per cent to £976.9m while trading profit moved up 75 per cent to £22.64m. Fuel distribution and environmental services maintained their positions in difficult conditions, producing trading profits of £7.82m (£7.5m) and £929,000 (£914,000) respectively, while transport services progressed

Interest charges were up to £4.36m (£1.71m) and reflected higher rates and increased borrowing as a result of the Vestric purchase. However, falling rates and retained earnings were expected to produce a lower charge this year.

At the end of the year group net borrowings were shown at only £2m, compared with £23m. This "snapshot," explained Mr Pybus, occurred on a day when requirements were abnormally low, and consequently led to a gearing ratio of just 3 per cent (28 per cent).

An assessment based on average borrowings over the year-end period indicated a ratio of 20 per cent. Nevertheless, he said, he was encouraged by the progress made in this area of financial control.

After tax £7.2m (£4.8m) and attributable to the National Coal Board and outside shareholders £2.63m (£2.46m), the net profit came through at £8.38m (£3.91m).

● comment

The Vestric acquisition has totally altered the shape of the AAH group, with pharmaceuticals overtaking fuel distribution as the chief contributor for the first time. This year, there should be further buying economies to be squeezed out of the enlarged pharmaceuticals division and an extra eight months contribution from Intergen Beauty Products. The outlook for the rest of the group is less exciting. Fuel distribution is a mature market and the building supplies division is mainly situated in the North and Scotland where demand is flat. The environmental services division has already been hit by the bad spring. However, demand for road haulage is picking up and the interest charge should fall even if the gearing rises from the abnormally low end year level. Pre-tax profits of £21.5m would put the shares, at 288p, on an undemanding prospective p/e of 10.5.

ANNUAL MEETINGS

Reed sees good advance after first quarter rise

MR LESLIE CARPENTER, chairman of Reed International, said at the annual meeting yesterday that, as expected, profits were up in the first quarter of the current year.

Despite limited volume growth, the advance in first-quarter profits underlined the steps taken to improve the quality of earnings, and boded well for first-half results, he added.

The chairman reminded shareholders that the company normally earned the greater part of its profits in the second half of its year, but looking ahead he said there were a number of uncertainties. The main ones centred on the outlook for the US economy and raw material prices. Nevertheless, he expected the year as a whole to show a good advance on last year's profits.

Reed's shares fell 25p yesterday to close at 970p.

● Courtaulds: Sir Christopher Hogg, the chairman, said that benefits to current trading were being obtained from lower energy costs and management was achieving better results in many of the areas where the 1985-86 performance had been disappointing. Trading in the high street had been less buoyant than the directors had hoped, however, and business in some of its significant markets had suffered due to lower oil prices.

● De La Rue: shareholders were told by Sir Arthur Norman, the chairman, that the year was so far running very much in line with budget. In addition, absorption of the businesses acquired in the past few months was proceeding according to plan.

City's need for software lifts CCF near £1m

THE CITY's imminent Big Bang boosted demand for the financial computer software of USM quoted Consultants (Computer & Financial) in the first half of 1986, and profits before tax rose more than five fold to £861,554, on turnover up from £1.56m to £4.6m.

The company also announced a restructuring of its operations into five main divisions "not only to meet current expansion but also to meet the next five years growth with an optimum structure for continuing profitability," according to chairman Mr Tim Simon.

Customers in the half year included Quilter Goodison, Wico, Capel Cure Meyers and County Bank. The company installed eight major installations, which Mr Simon claimed now handle 25 per cent of all Stock Exchange business.

He added that strong demand would continue for the forseeable future, and demand for software from the banking business continued to increase.

The interim dividend is raised from 0.2p to 0.7p on earnings per share ahead from 0.37p to 4.69p. The total payout last full year was 0.75p

The increase in profit came despite a £54,545 loss on trading in Hong Kong and the Pacific Region.

"An aggressive market evaluation and promotion campaign has been instituted with the result that Anglo Eastern Group has placed an order for our well-established SHIPS package. Additionally, our US developed TUFFS product is currently on trial and evaluation by one of the major banking groups in the region," said the chairman.

He added that the financial position was sound, with the healthiest ever working capital position and the strongest ever balance sheet.

The shares closed 8p ahead yesterday at 108p.

Oil downturn hits Camco

THE ACCELERATED decline in offshore rig utilisation during the present year has hit Camco, US-based supplier of gas lift equipment and safety systems to the energy industry. There has been further pressure on margins for this 65.4 per cent-owned subsidary of Pearson which also owns the Financial Times, as competitive discounting deepended in response to the shrinking market.

In the second quarter to the end of June 1986 net income fell to $2.1m (£1.4m) against $3.9m last time making $3.1m ($6.7m) for the first half. Last year's first six months was boosted by $1.04m gain on the sale of a subsidiary.

The result was achieved on net sales in the second quarter down from $42.96m to $41.35m (£27.66m). The total for the first six months was $81.51m ($85.08m). Earnings per share came out at 28 cents (53 cents) in the second quarter and 43 cents (92 cents) for the full half-year.

Directors said the programmes to maintain cashflow and reduce costs were continuing. Costs and expenses in the three months increased from $36.26m to $38.65m with $77.22m ($73.35m) for the half year.

Pre-tax income was $2.7m, sharply down from the $6.7m in the second three months of 1985 with tax taking $645,000 ($2.82m). The six months figures were $4.3m ($11.72m) with tax of $1.16m ($4.98m).

ISSUE NEWS

Acatos & Hutcheson valued at £48.3m

BY RICHARD TOMKINS

Acatos & Hutcheson, Britain's second biggest producer of edible oils after Unilever, today publishes the prospectus for a Stock Exchange quotation which will give it a market capitalisation of £48.3m.

Founded as a lard-packing business in 1966 by Mr Ian Hutcheson, its chairman and chief executive, Acatos & Hutcheson has grown to its present size through a combination of organic expansion and an acquisition programme which has taken it into most sectors of its market.

With demand shifting away from animal fats and towards products derived from vegetable oils, its acquisition and investment programme has concentrated mainly on building market share in vegetable oil products.

Today, its industrial products division supplies bulk oils by tanker to manufacturers of foods such as snacks, crisps, biscuits, cakes and confectionery, and has also secured a significant share of the market for supplying edible oils to the bakery and catering trades.

Its retail products division makes a wide range of bottled oils, margarine, low fat spreads, lard, and cooking fats. Most of these are sold under customers' own labels, but Acatos & Hutcheson also has its own brand names including Pura, Britannia, and Gold Cup.

Pre-tax profits have grown from £2.3m in 1981 to £4m in the year to last September, and with further rationalisation benefits coming through from recent acquisitions, the company is forecasting profits of at least £6.7m in the year to this September.

Some 4.7m shares are being offered at 160p a share, giving the company a prospective price/earnings multiple of 10.7. Sponsors to the issue are Hill Samuel and brokers are County Securities (incorporating Fielding, Newson-Smith).

Of the shares being issued, some 2.7m are being sold by institutional investors which helped finance Acatos and Hutcheson's acquisition programme, and the rest are new shares being sold by the company to raise about £2.5m net. This will help reduce gearing from nearly 50 per cent to about 35 per cent.

Acatos and Hutcheson expects further growth from rationalisation benefits, from investment in growth segments of the edible oils market, and from expansion of its market share in retail products and its bakery and catering activities. It also expects to make further acquisitions.

USM placing gives Atlas Converting £9.3m value

BY RICHARD TOMKINS

Atlas Converting Equipment, a Bedford-based market of slitting and rewinding machines, is coming to the Unlisted Securities Market at a value of £9.3m.

The machines it designs and makes are used to convert large rolls of products, such as paper and plastic, into smaller and narrower rolls. Typical applications include packaging materials and computer, audio and video tape.

There are more than 50 makers of slitters-rewinders world-wide, but Atlas says its main competitors are limited to Kampf and Goebel in West Germany; John Dusenbery, Arrow and Cameron in the US; and Nishimura in Japan. Last year it exported 72 per cent of its sales and it is the biggest manufacturer of these machines in Britain.

The company was founded 10 years ago by five employees of Fords (Finsbury), a subsidiary of TI, which manufactured slitting and rewinding machines under licence from the US.

Pre-tax profits have risen from £44,000 in 1981 to £1.1m in the year to last December on turnover up from £1.6m to £7.6m, and in the current year Atlas is forecasting profits of at least £1.4m.

Some 2.6m shares are being placed by brokers Hoare Govett at 115p each, so the prospective p/e multiple at the issue price is 10.5.

The issue will raise £3m, all of which will go to the five executive directors—Mr Chris Rogers, the chairman, will receive £1.3m. The directors say no acquisitions are under consideration and the company has no need at present for funds.

Tops Estates

Tops Estates has a full quotation, not one on the USM as stated in yesterday's FT.

Berkley/Authority

Berkeley House Group, which has made a move to block a deal between Management Group and Authority Investments, yesterday moved to calm the waters with Authority's board.

The company said: "We now intend to seek a meeting with Lord Lever and his coleagues in order to obtain specific information about Authority Investments prior to putting forward detailed proposals.

'We also wish to indicate to them that our intentions are positive and will be in the best longer-term interests of all shareholders."

UK COMPANY NEWS

Goring expanding as profits hit by weakening dollar

ADVERSE MOVEMENTS in the dollar exchange were blamed by Goring Kerr, maker of industrial process control equipment for a fall in profits and turnover in the first six months of the present year. The shares fell 30p to close at 370p.

The Berkshire-based company, which is a subsidiary of Tace, also announced the acquisition of Peerless Control Systems from Peerless for an undisclosed sum. The company makes colour monitoring control systems for the food processing industry and at March 31 1986 had net assets of £98,000.

Turnover for the half year to the end of March 1986 fell to £3.77m against £3.79m for the comparable period last time. Pre-tax profit was down from £1.25m to £1.02m.

Earnings per 10p share were 10.45p (11p) and the interim dividend is being raised to 3.85p (3.5p). Last year there was a total payment of 10.5p from taxable profits of £2.68m.

Directors said that but for the effects of the exchange rate movements turnover would have been more than £4m and the taxable figure would have been similar to that of the previous year.

They added that the potential of the North American market had been proved again with sales increasing by about 30 per cent compared with the same period last time.

For the rest of the year trading levels of the first half should be maintained, the directors considered. Several large enquiries were being progressed and firm orders were expected.

In the longer term the establishment of Peerless provided further growth prospects.

Trading profit came out at £1.02m (£1.21m) with net interested received adding a further £3,000 (£36,000). The tax charge was £395,000 (£586,000) and with minorities taking £4,000 last time attributable profits were £627,000, against £660,000.

Dividends absorbed £231,00- (£210,000).

Kellock up by 65% midway

CONTINUING demand and improved systems helped Kellock Trust, recourse factoring group, improve pre-tax profits in the six months to the end of June 1986 by 65 per cent to £453,000. Turnover was £2.64m, against £2.17m, a rise of 22 per cent.

Earnings per 5p share and variable rate convertible preference share came out at 1.03p

The directors said that although in the second half the company would have to cover the costs of moving to a new headquarters and improving systems, they expected the full year to remain ahead of last.

The tax charge was £176,000 (£100,000), minorities took £152,000 (£88,000) and last time there was an extraordinary charge of £13,000. Transfer to capital redemption reserve took £22,500 (nil), and £156,000 (nil) was spent on buying the company's shares for cancellation.

Kenyon Securities 73% profit surge

Kenyon Securities, the USM quoted funeral and ancillary services group, improved its turnover by 39 per cent to £6.44m and expanded its pre-tax profit by 73 per cent, from £434,000 to £752,000 in the year ended March 31 1986.

Earnings rose from 16.2p to 22.9p, and the dividend is lifted from 9.38p to 10.4p, the final being 7p net.

Mr Michael Kenyon, chairman and managing director, said the policy of acquisitions, followed by the introduction of group management methods with high standards, proved most effective.

He considered the group to be well placed for a continuation of its strong growth, and planned to maintain the acquisition policy.

The results included the trading activities of four acquisitions for a full year—J. A. Massey (Harrow), F. Clutterham (Bury St Edmunds), F. Hammond (Newmarket), and Hambrook & Johns (Folkestone).

In May the company purchased funeral directors Kelly & Co. (Cramb Bros) for £425,000 in shares, which operated from locations in Pinner, Edgware,and Finchley.

The group now operated from 38 offices in London, Essex, Suffolk and Kent.

Mr Kenyon said the number of funerals conducted during the year rose from 5,036 to 6,833. The Major Incident Section assisted at the Air India disaster and at the accident at Manchester Airport.

After tax £303,000 (£190,000) and extraordinary credits of £35,000 this time, the attributable profit came to £484,000 (£244,000).

Cost of the dividend was £227,000 (£148,000). The final was payable on the shares issued for the acquisition of Kelly, while in the previous year holders of 455,000 shares waived their right to £28,000.

Fall in commission hits British Bloodstock profits

British Bloodstock Agency yesterday reported a fall from £1.57m to £1.23m in full-year taxable profits, mainly due to a drop in commission earned on the buying and selling of bloodstock, increased costs and the impact of exchange rate movements.

Mr Michael Wates, the chairman, said the fall in bloodstock commission occurred in spite of a greater number of horses being purchased for clients than ever before and "reflects the changing state of the international market, where prices at the top end were significantly lower."

Gross revenue, which represents the amount invoiced to clients for bloodstock sales and other agency services provided and nomination income, fell from £78.5m to £76.94m. Turnover, which represents commissions and fees on services provided, totalled £5.49m (£5.36m).

The increased costs included recruitment of a small number of staff as well as further investment in computerisation. Currency movements produced a profit on exchange of £7,000 (£121,000).

British Bloodstock's other main activities — insurance, shipping, and stallions—all performed well and increased their profit contributions.

Due to a lower effective tax rate of 42.2 per cent (49.9 per cent), equal to £521,000 (£785,000), the fall in earnings per share from 23.9p to 20.8p was less marked. A higher final dividend of 6.3p (5.5p) was proposed making a total of 8.8p (8p).

Burndene turns in £743,000

Burndene Investments has reported a pre-tax profit of £743,000 from turnover of £9.48m for the 25 weeks ended March 22 1986.

No comparisons were given as the company changed its year from end May to end September.

However, the directors said they were expecting the second half, to September 27 1986, would be slightly higher than the first. The shares jumped 16p to 83p yesterday.

The last full financial period covered 16 months ended September 29 1985 and showed turnover of £18.87m and pre-tax profits of £722,000.

Caravan manufacturing and park operating accounted for £443,000 of profit; hosiery manufacture £260,000; property £114,000, and finance and administration loss £74,000. The caravan side contributed £5.84m to turnover and hosiery £2.64m.

The pre-tax profit was struck after net interest charge £152,000 and depreciation £92,000. Earnings were 7.25p per share.

Results of the overseas subsidiaries were excluded as they were not material to group figures.

Stormgard boosted by Selincourt

Stormgard, the investment company which acquired Selincourt, fabrics and knitwear group, last August, yesterday announced sharply increased pre-tax profits of £734,000 for the 15 months to end-March 1986, against £45,000 for the year to December 1984.

The results for 1985/86 include those of Selincourt's from the date of acquisition, and also those of Frank Usher, a Selincourt subsidiary, to January 24 1986 when it was disposed of.

Turnover for the period was £42.02m, which generated an operating profit of £2.1m (£7,000 losses). The 1984 results do not include comparative figures for Selincourt.

The pre-tax result was struck after interest payments of £1.36m (£52,000 received).

After tax took £5,000 (£13,000) and minorities £9,000 (nil), earnings per 10p share are shown as 1.11p (0.68p).

Longton seeks offers for two subsidiaries

As indicated in the letter from Mr A. S. Fox, the chairman of Longton Industrial Holdings, contained in the recommended offer document from Thomson T-Line, other offers have been sought by the Longton board and its advisers, for James & Tatton and Jaton.

Longton received two offers for these two subsidiaries. The offers are subject to contract and are both significantly higher than the original offer which was approximately equivalent to the combined net asset value of the two subsidiaries as at March 31 1986.

T-Line's offer has been accepted by holders of 4,936,930 Longton ordinary (approximately 79 per cent). It has been declared *unconditional* as to acceptances and will remain open.

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FINANCIAL TIMES SURVEY

Wednesday July 23 1986

Soft Commodities

Many prices are at historic lows, and the IMF expects further falls. Yet there are signs that the worse may be over. One key commodity, sugar, has recovered.

Markets have lost their allure

By Andrew Gowers

FOR MOST people involved in the production and trading of "soft" or agricultural commodities, this is proving to be a grim decade.

Prices are in many cases at, or near, historic lows in real terms as markets struggle to cope with floods of surplus produce. And—with most soothsayers forecasting flat, or still lower, prices — the markets themselves have lost much of their allure.

Speculators who profited handsomely from the price volatility of the 1970s have deserted soft commodities for the newer excitement of financial futures or the security and big yields afforded by the equity and money markets.

The contrast with the "resources decade" of the 1970s could hardly be more marked. It is strange, indeed, to observe that only 10 years have elapsed since spiralling commodity prices were the focus of major international concern, and many respected forecasters were warning of impending global shortages of basic raw materials and foodstuffs.

The shortages never came, and the terms of trade have now shifted dramatically against the commodity producers. Agricultural commodities have been particularly badly hit. Last year alone, the International Monetary Fund's indices of food prices and of agricultural raw material prices fell by 15 per cent and 12 per cent respectively (see chart, page 4). Commodity prices in general were about 35 per cent below their 1980 average in 1985, according to the UN Conference on Trade and Development (Unctad).

What is more, currency movements over the past year have unexpectedly made matters worse for many producers. In the first half of the 1980s, it was conventional wisdom to say that the exceptional strength of the dollar was partly responsible for—and helped to offset—the increasing weakness of dollar-denominated commodity prices. All other things being equal, so the argument went, a subsequent fall in the dollar might be expected to give a compensating boost to dollar commodity prices.

But now the dollar has fallen, and the very reverse has happened: commodity prices have continued to tumble from the peak they reached in the second quarter of 1984. When calculated in a more representative basket of currencies, such as the Special Drawing Right, the fall looks even more precipitous. In May of this year, for example, the IMF's food price index was a further 10 per cent below its level in the second quarter of 1985.

There are signs that the worst of the fall may now be over; indeed, one key commodity, sugar, has rebounded impressively from the lows of last year, though even the sugar price remains below the most efficient grower's cost of production, and its rally appears to have run out of steam. For the rest, nobody is bold enough to forecast a major improvement either this year or next. The IMF, for its part, believes that the prices of most commodities will fall substantially in 1986 —with only sugar, tropical timber and hides among the softs likely to rise significantly.

"The behaviour of commodity prices is, to say the least, bewildering," remarked Mr Alister McIntyre, the acting head of Unctad, at a recent meeting of the body's commodities committee.

To many developing countries, the trend is deeply worrying as well as bewildering—the terms of trade have worsened dramatically for them. Between 1980 and 1985, their export earnings from an IMF-selected sample of 17 commodities dropped by 16 per cent.

For the industrialised world, by contrast, the drop in commodity prices has been a real boon in the fight against inflation. As Lloyds Bank commented recently:

"The weakness of dollar commodity prices, combined with the decline of the dollar, is having an important restraining influence on inflation in many industrial countries. Even in the United States, where a falling dollar would tend to boost inflation, weak commodity prices have helped to prevent relatively rapid GNP growth from being accompanied by accelerating inflation."

The explanation for the general weakness in commodity prices is complex, and the factors in play will obviously vary greatly from one commodity to another.

Coffee, for example, has proved to be an exception to the declining trend over the past nine months, because of a drought in the biggest producing country, Brazil.

In the case of some "temperate" agricultural products, such as the grains, on the other hand, there is a particularly severe glut of supplies, and world market prices are continuing to decline under the influence of a price-cutting war between the US and the EEC. The US is also setting out this year to arrest the decline in its exports of soyabeans, cotton, tobacco and rice—with potentially devastating consequences for many producers of these commodities in the Third World.

There are also deep uncertainties about the effects of the most dramatic commodity price crash of them all—that in the crude oil market over the last year. While falling oil prices ought to provide a fillip to western economic growth—and therefore, indirectly, to demand for other commodities—they are bound to have other, perhaps less desirable, spin-offs.

For producers of rubber and natural fibres such as cotton, for example, the drop in the oil price is bound to mean increased competition from synthetic products. In tea and sugar, to name but two other commodities, it is already taking its toll in the form of reduced purchases by cash-strapped oil-producing states.

Nevertheless, several common features—which would apply to metals and minerals, just as much as to soft commodities—can be identified.

● First, world economic growth remains generally sluggish and has been at its weakest in manufacturing, as opposed to the services sector. Uncertainties over the future of the US recovery and slow growth in Europe are keeping demand for key industrial raw materials relatively depressed. In many of the newer and heavily-indebted industrial countries, commodity consumption has been squeezed, as a result of official austerity programmes.

● Second, developing states have had to maximise commodity exports in order to keep up their foreign exchange earnings and offset the decline in unit commodity prices. This, in turn, has aggravated oversupply problems. It is true of *Chile* in the copper market, as it is of Brazil in soyabeans or Malaysia in palm oil.

● Third, the world has got used to living with much lower levels of stocks than in the inflationary 1970s. On the one hand, the persistence of high *real interest rates* has increased the cost of carrying large inventories, and consumers are, in any case, quite happy to defer purchases when prices are on the way down.

● Fourth, investment funds have moved out of commodities —which were bought in the 1970s as stores of value—and into more liquid assets. Traders complain about a lack of price volatility; several markets speak of the need to attract back speculative business—and of the difficulty of doing so in the *present climate. Gone are the* days when the focus was on possible market distortions resulting from *excessive* speculative activity.

● Finally, and perhaps most significantly, there is evidence of a more fundamental shift in the pattern of supply and demand for a number of commodities, and of a long-term downward trend in commodity prices. Looked at from this perspective, the scarcity worries of the 1970s were merely a temporary aberration resulting *from a sudden spurt of economic* growth and from the Opec oil price shock.

The long-term downward trend, known among economists as the "Prebisch effect," is said to reflect increasing efficiency, both in the production and in the consumption of commodities. Increasing production efficiency would tend to increase supplies, while increasing efficiency in the way commodities are consumed tends to reduce demand.

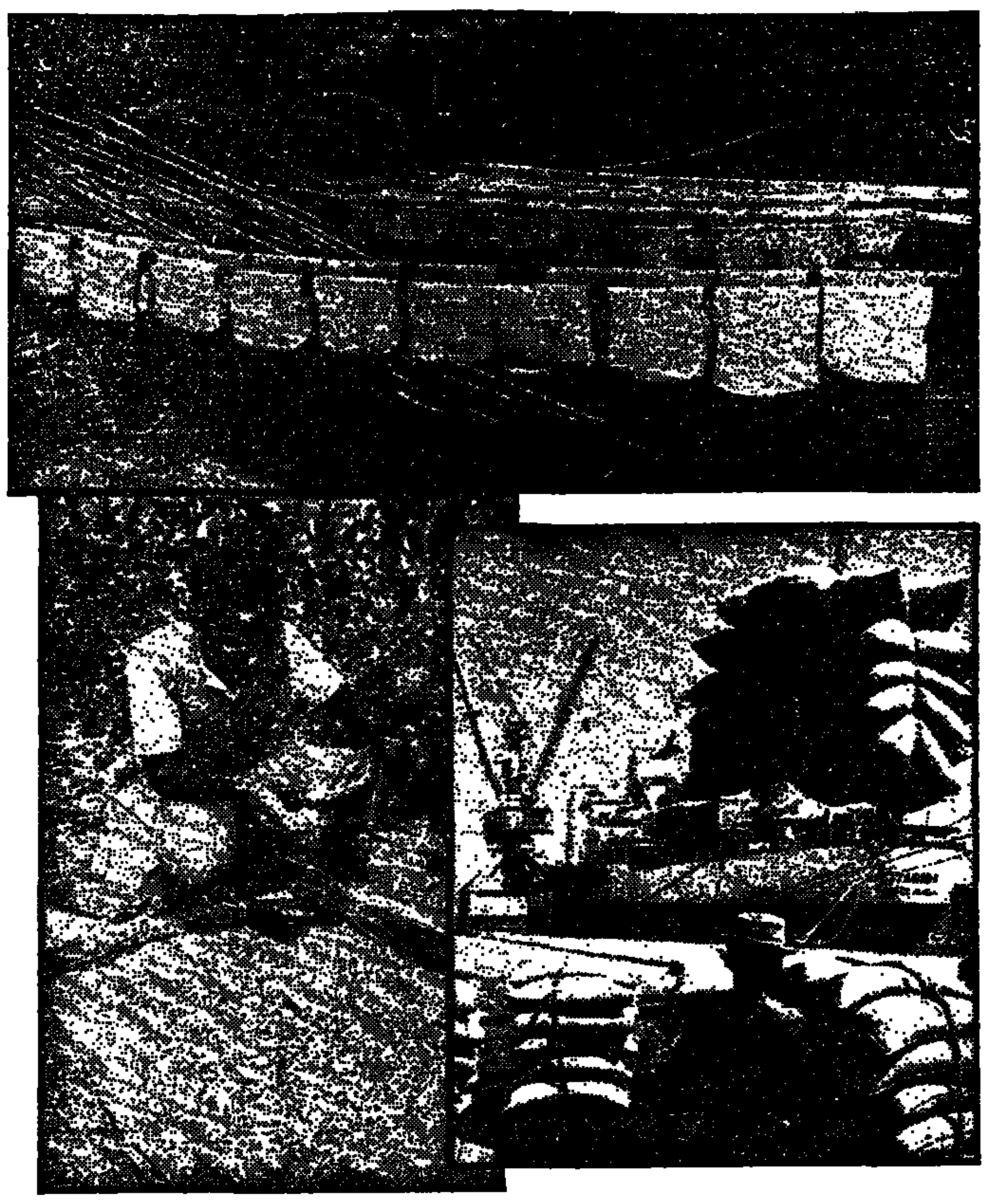
Agricultural productivity has grown rapidly across the board, whether through new higher-yielding wheat varieties, or specially-bred hybrid cocoa trees or oil palms.

There is a constant shift in the soft commodities business, from the less efficient, higher-cost producers to their more competitive rivals: from Malaysia, say, to Indonesia in palm oil; from the US to Brazil in soyabeans; or from Ghana and Nigeria to the Ivory Coast, Brazil and — increasingly — Malaysia in cocoa.

Only protectionism, for many products, prevents this shift happening more quickly; or, in the case of coffee, the transition is impeded in normal times by the existence of a rigid export quota system.

Increasing efficiency, in both production and consumption, is clearly at work in the rubber market. Higher-yielding trees have increased supplies, while consumption in rubber's main outlet, the tyre industry, has been hit by the general reduction in the size of tyres.

Perhaps the 1990s will once again prove to be a decade in which resources look in short supply. That certainly seems to be the consensus about oil. But, for the moment, soft commodity producers seem more than capable of growing everything the world wants to buy.



Top: Rubber hanging out to dry on a plantation at Selangor, Malaysia. Lower left: Building a fermentation pile of cocoa beans on a plantation near Gagnoa, Ivory Coast. Right: Cocoa being loaded for export at the port of Ilheus, Brazil

Soft Commodities 2

Sugar

Protectionism prevails

JUST OVER a year ago, there were some pretty long faces in the world sugar market.

Prices had just fallen to what was almost certainly an all-time low in real terms, with the July contract on the New York futures market going off the board at 2.35 cents per lb.

This was well below the production costs of the most efficient grower—and a level which one broker, only half in jest, compared with the price of a pound of sand.

World stocks had been growing, more or less without interruption, for four years and were standing at record levels. Production remained stubbornly high, despite the low prices, because the vast majority of sugar growers are insulated from the world market by subsidies and import restrictions.

In short, the so-called "free market" for sugar was looking ever more marginal—as a cut-price dumping ground for the world's surpluses.

Twelve months on, the market can still hardly be said to be jumping for joy. Those countries which depend heavily on the free market, such as Australia and South Africa, have been forced into painful restructurings of their industry. But protectionism remains the dominant force in the sugar business, and traders and exporters will continue to have to make their living at the margin.

The US, once a big customer for imported cane, continues to close off its market, year by year, in order to protect domestic producers. And the EEC continues to dump huge quantities in the form of heavily-subsidised exports.

Nonetheless, there has been a marked improvement in sentiment since July of last year. By the autumn, prices were back well above 5c a lb, and they are now trading between 5c and 6c.

Essentially, this is because, for the first time since 1981, there is the prospect of a significant decrease in sugar stocks this year, and probably next.

With the perversity that is characteristic of the commodity markets, several factors were already conspiring to bring this about last year, just as prices hit their nadir.

Most obviously, several countries were either deciding consciously, or being forced, to—cut production and exports as a result of the unremunerative world prices.

First among these was Brazil, which vies with the Soviet Union for the position of number one producer and where output is estimated to have dropped to 8.275m tonnes in 1985/86 from 9.332m the previous season. Other countries that have shown a drop in production this year, as a result of these economic factors, include the Dominican Republic, Thailand and the Philippines.

Elsewhere, the weather has lent a helping hand. Output in Cuba, for example, the third of the top three producers, is believed to have been severely hit by drought damage and by Hurricane Kate. It may total only between 6.5m and 6.8m tonnes—about 1.5m down on its level in each of the past two seasons.

This, in turn, implies larger-than-normal purchases from the free market by the Soviet Union, which traditionally buys large quantities of cane from Cuba. The Soviets have already been spotted making large purchases this year; talk that they were likely to buy even more as a result of the Chernobyl nuclear accident caused a great flurry in the market back in May, although this now looks wildly overdone.

Another big customer on the world market of late has been India, which is having great difficulty growing enough sugar to keep up with the rising demands of its population. According to Indian official figures, the country imported nearly 2m tonnes of sugar in the year to end-March, four times the amount in the previous year.

Its purchases were one of the reasons for the relative buoyancy of the white (refined) sugar markets, as opposed to that for "raws." Although the authorities want to cut down on their foreign purchases during the current fiscal year, some analysts believe the country will still need to import some 1.2m tonnes.

As a result of all these and other developments, most forecasters expect consumption to exceed production this year and next—leading to a net fall in stocks of about 2m tonnes this year, according to traders E. D. & F. Man, or 3.5m tonnes, according to the rather more optimistic C. Czarnikow.

That expectation has, in itself, been sufficient to propel prices upward. But the market's confidence remains highly fragile. Traders are all too well aware that many of the developments that have served to cut production could turn out to be transient.

Brazil's sugar policy, for example, is in a state of flux because of the country's failure to develop export markets for its sugar-derived ethanol. Its programme to run cars on alcohol—the world's biggest—is also looking rather sorry for itself in the light of the dramatic fall in oil prices. As a result there is talk that Brazil may have to step up sugar exports in the medium term.

Perhaps more significantly there is a real danger that the current level of prices could tempt some producers—such as those in the EEC—to boost output once again. Although the world price would not cover their overall costs, it might just be sufficient to make a profit on exporting their marginal surpluses.

There is no sign that the European Community is preparing to cut back its production quotas; indeed, during discussions on the subject last year there were even calls for them to be increased.

There is no doubt that world consumption of sugar is still going up. But many countries which, in the past, have been big importers—such as Nigeria, Iran and Iraq—are now desperately short of cash as a result of the fall in oil prices; so they may be forced to curtail their purchases.

Nor is there any sign of a new International Sugar Agreement to introduce some restraint over the present cut-throat competition in the world market. The four biggest exporters—Brazil, Australia, Cuba and the EEC—have been holding desultory talks about talks for the past nine months, but most of their time appears to have been taken up in mutual recriminations about the collapse of the previous round of negotiations two years ago.

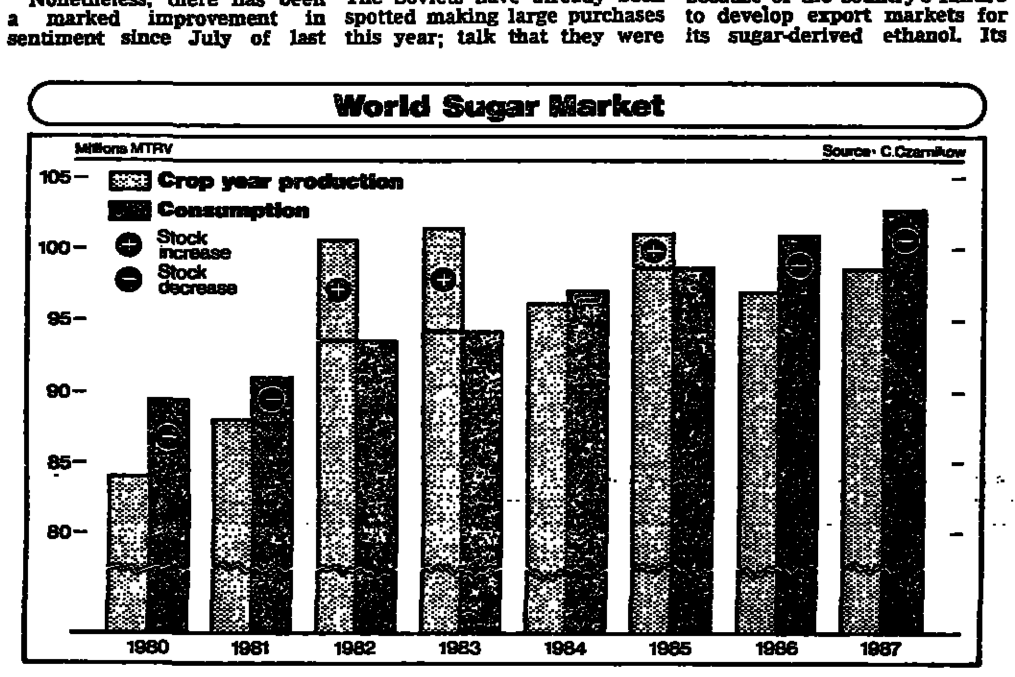
All in all, then, the market is likely to remain nervous about its new-found "strength" for some time to come.

"After several years of surpluses, the sugar market is in need of a constant stream of encouraging news to sustain the improvement in values," commented one trader recently.

Andrew Gowers

Collecting sugar cane on a plantation near Sao Paulo, in Brazil

World Sugar Market



Coffee

Prices on a switchback

THE PERIOD between mid-May and mid-August is traditionally one of extreme nervousness on the world coffee market.

It is mid-winter in Brazil, and the attention of coffee roasters, traders and speculators is focused firmly on the meteorological forecasts which will give the first warning (or, from the speculators' point of view, promise) of frost that might ravage the country's crop, which normally accounts for around 30 per cent of world supplies.

Any talk of cold fronts heading towards the coffee belt brings back memories of July 17, 1975, when, almost overnight, frost wiped out three-quarters of the country's 1976 crop. This sparked off an unprecedented price spiral which saw London futures market values climb from around £600 a tonne to more than £4,000 a tonne in the course of the following 18 months.

This year, however, the mood has been somewhat different. Brazil's weather has been watched as closely as ever, but, instead of licking their lips at the prospect of a frost, bullish speculators have been wringing their hands at the possibility that there might not be a frost.

With the Brazilian weather remaining stubbornly mild, the first eight weeks of the frost season saw a price fall of some £400 a tonne: and this at a time when, normally, only the bravest of speculators would dare to sell the market short.

The big difference this year was the high level prices reached ahead of the frost season which itself resulted from a Brazilian meteorological misfortune, this time in the form of drought.

For four months last year the country's coffee trees were starved of moisture. And, although the impact was less immediate than that of a frost, the results were every bit as devastating. The 1986-87 crop is now estimated at around 14m bags (60 kilos each), down 50 per cent from the level expected before the drought.

The full scale of the disaster was borne in upon the coffee world in the closing months of 1985, and the market responded accordingly. During October and November the London coffee futures price edged up from about £1,600 to nearly £2,000 a tonne. And then, with unofficial estimates of the Brazilian crop being reduced almost daily, the bulls really went on the rampage.

After witnessing an upsurge of £577.50 a tonne in a single week in mid-December, one respected coffee analyst commented: "It is difficult to think of anything which might burst the bubble." In fact, the "bubble" still had some inflating to do before the price peaked at more than £3,000 a tonne in early January; and even then it did not really burst but, gradually and somewhat erratically, deflated.

The price slide was fuelled by heavy shipments from producing countries made possible by the suspension of International Coffee Agreement export quotas. This had been triggered automatically when the 15-day average indicator price breached the 150.03 cents a lb level.

Even with the market in retreat, however, most coffee analysts thought they saw a renewed bull trend around the corner, and some thought this might be strong enough to push the price beyond the 1977 record of £4,232 a tonne.

These expectations were based largely on the assumption that the market would respond in the usual way to the approach of the frost season. With stocks already reduced by the drought, the analysts argued, even the faintest of weather scares could have a dramatic effect on prices.

But, in the event, the maximum risk period of mid-July has been reached and passed with hardly a suggestion of freezing temperatures. One cold front was spotted moving in from the Atlantic, and prices moved up briefly; but it soon changed course and the market resumed its downward drift.

In the meantime, it has become more widely accepted that, damaging as it was to Brazilian hopes, the 1985 drought had merely brought the world stock of coffee beans back to a more normal level after a sequence of large crops had boosted it to around 60m bags, equivalent to about eight months' consumption.

Moreover, the heavy buying, leading up to the January price peak, had transferred a significant portion of the remaining stock from producers' hands to consumers', allowing the latter to sit back and await developments.

With roaster buying conspicuous by its absence and frost fears remaining very much in the background, there was little to prevent the slide in prices which took the London futures market's second position down to £1,800 a tonne at one point.

But then the Brazilian weather situation took a hand again. While everyone had been watching for signs of a frost, the appearance of a new drought threat had gone largely unnoticed in the market.

When Accu-Weather, a US forecasting agency, pointed out earlier this month that the key producing states of Sao Paulo, Parana and Minas Gerais had been seriously short of rain over the preceding eight weeks, the frustrated bulls responded in their accustomed fashion. A technical rally, following the earlier sharp fall, accelerated, and nearby futures prices quickly moved more than £300 a tonne above their early July lows.

So, although prices remain well below the January peaks, coffee speculators should not really be too disappointed. After all, the futures market is currently about 27 per cent above the level ruling a year ago. And the slide in the value of the US currency means that, in dollar equivalent terms, the gain on the year works out at about 35 per cent.

Richard Mooney

Tea

Keeping a watchful eye on India

WORLD TEA markets appear to be pausing for breath after the turmoil and see-sawing prices of the last two years.

Auction prices in London and other centres are bumping along at low levels as traders await definite news of this year's crops, particularly in the key growing area of North India. At the end of May, for example, the landed auction average was quoted at 121.32p per kg, only 40 per cent of its level in January 1984.

And the trade is still keeping a watchful eye on India, which, as the world's biggest producer, consumer and exporter of tea, has been by far the most important influence on the classical boom-bust cycle that has unfolded in the tea market over the past couple of years.

The story begins in the autumn of 1983, when tea prices were in any case rising steadily. There had been droughts in a number of important producing countries such as Sri Lanka; consumer stocks were at a very low level, following several years in which demand had outpaced supply; and world consumption was continuing its inexorable upward march.

So when India announced on December 23 that it was banning all tea exports until further notice, it came as the spark to ignite an already explosive market situation.

India was faced with a real problem. Domestic consumption of tea has been going up for a number of years at an annual rate of about 5 per cent—more than double the rate of increase for the world as a whole. Its producers simply could not keep up, and the authorities were desperate to avoid undue price rises for such a staple beverage, particularly in an election year. The only answer, as they saw it, was to curb India's foreign tea sales.

The world market, however, was caught off guard. Tea prices immediately started to rise, as traders scrambled for any consignments available, and reached an all-time record average of 302.87p per kg at the end of January 1984 at the London auction.

Despite India's subsequent decision to relent and allow exports of cut, tear and curl (CTC) tea, the price did not come down very far for the rest of the year. Indian exports were still rationed by quarterly quotas, and the market was still deeply uncertain whether it would get enough North Indian supplies.

The immediate result for the other producers was an unprecedented tea-exports bonanza as they cashed in on the high prices. According to International Tea Committee figures, India's share of world exports declined slightly in 1984, while that of Sri Lanka, the second largest exporter, increased to 22 per cent from 18 per cent the previous year.

But the price increase contained the seeds of its own demise. Early in 1985, the market began to look more fragile as buyers found supplies to be more than adequate. Crops had been good in 1984 and the signs were that they would be even bigger that year. Then India dropped another bombshell by suddenly and unexpectedly releasing a large quantity of tea to the London auction.

"That was the last straw, since buyers had already made alternative arrangements to fill their requirements," commented one London broker. "The market collapsed."

By the end of April, the London auction average was down to 139.62p per kg—a drop of more than 60p over four weeks—and, into summer, it kept on falling as it became clear just how large the 1985 crops were going to be.

The truth is that some of the other producers had become greedy. Spurred on by the extremely profitable prices they had obtained in 1984, they plucked everything they could from their tea bushes. The result during 1985 was an increasingly unsaleable glut of relatively poor-quality teas from suppliers such as Kenya and Malawi.

Meanwhile, the flow of quality North Indian varieties to the important London market was impeded for much of the year by the Indian authorities' maintenance of a high minimum export price; India's sales to the London auction dropped to about 26m kg last year from their traditional level of between 40m and 45m kg.

The market has yet to recover from its shock over these developments. And it has a number of other problems and uncertainties to contend with over the next few months. These include:

- The plight of Sri Lanka's tea industry, hit by a scare over alleged poisoning of tea shipments by Tamil separatists. Although no poisoned consignments have been found, many buyers have curtailed their purchases at Colombo auctions, and prices there have recently dropped much further than on the world market.
- A sharp drop in tea purchases by Middle Eastern countries, in the wake of falling oil prices. Nobody can say for certain what overall impact this will have, but its effects are clearly already being felt—for example, at Kenya's tea auctions in Mombasa.
- There is still a degree of uncertainty over Indian export policy. Mr Radha Tripathy, the Indian Tea Board chairman, recently told traders and packers in London that India wanted to mount a come-back in the UK market, and that it would try to avoid restricting exports again. But he could not rule out such a move in the event of another potential squeeze in the domestic market. "It would be another painful decision if we have to take it," he said.

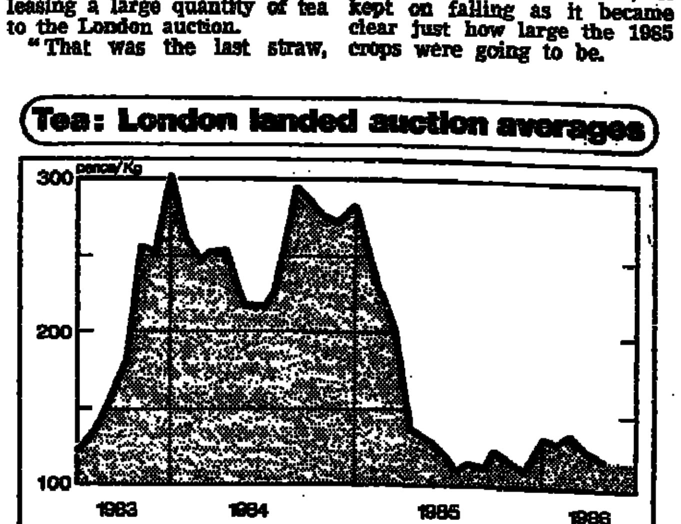
In spite of these problems, the trade—both in India and in London—is gradually beginning to sound more confident about the outlook for tea than it has for more than a year. Crops look as if they will be somewhat smaller than last year as a result of drier growing conditions.

In particular, the North Indian crop has been affected by a fairly lengthy drought in the first few months of the year. This will probably reduce its size, and may well dramatically improve its quality. At least brokers can console themselves with the thought that, if there is a surplus of tea, it is probably not a structural one.

Andrew Gowers

Tea-picking in Sri Lanka

Tea: London landed auction averages



As a result of droughts in a number of producing countries, and of restrictions on Indian exports, tea prices rose sharply in 1983. Now auction prices in London, as at other centres, are bumping along at low levels as traders await news of this year's crops

Cocoa

No cure for depression

LAST WEEK'S successful renegotiation in Geneva of the price stabilising International Cocoa Agreement (ICCA) was the first piece of good news for the cocoa market for some time. *And it was a development that* had seemed hardly possible a couple of months ago.

But the world's cocoa traders will not be getting too excited. The survival of the ICCA removes a major worry but it does nothing to cure the fundamental *depression of the market.*

The plain fact is that world cocoa stocks are too high and are still rising. Low crops in 1982-83 and 1983-84 reduced the stock total from 703,000 tonnes, the second highest level ever, *to a more tolerable 374,000* tonnes. But the 1984-85 season saw output leap 420,000 tonnes to a record 1.93m tonnes, and this season's figure is expected to be only about 45,000 tonnes lower. As a result stocks at the end of the 1985-86 season will be back to around 550,000 tonnes, equivalent to about 3½ months' demand.

The situation seemed certain to get worse at one point this year, when hopes for the survival of the cocoa pact were at their lowest ebb. Not only would failure to renegotiate the agreement have meant the *removal of the safety net of* buffer stock buying, but it would also have resulted, in all probability, in the dumping of the existing 100,000 tonnes buffer stock back on to the market.

This prospect loomed very *large following the collapse of* a fourth attempt at renegotiating the pact in February.

It had *always* been recognised that any new agreement would be possible only with the participation of the Ivory Coast, the world's biggest producer, which is not a member of the current pact. In fact, the EEC, the world's biggest consumer, made this an effective condition of its own continued membership.

So it came as a considerable blow when Mr Denis Bra Kanon, the Ivorian Agriculture Minister, walked out of the February talks in protest at *what* he considered the unreasonable demands of the consumers.

At that time, the second position on the London cocoa futures market stood at £1,540 a tonne, already £260 down from the start of the year. By May 7 it had slipped to £1,264.50 a tonne, the lowest level for three years in money terms and for a lot longer than that in inflation-adjusted terms.

In the meantime, the Ivory Coast had put out signals suggesting that it no longer saw the prospect of reaching accord with the consumers as completely hopeless. But the market was evidently not sure how much store to set by this apparent change of heart.

So hopes of success were by no means high when this month's talks began. The very fact that the Ivory Coast was back at the negotiating table might have been seen as encouraging, but the terms on offer from the consumers were not substantially different from those that prompted Mr Bra Kanon's February walkout.

Consumers wanted a reference price of 100 cents a lb, with buffer stock buying and selling triggers at 80 cents and 120 cents while the producers were calling for a "floor" of 100 cents and a "ceiling" of 130 cents. The consumers were also still seeking a system imposing semi-automatic adjustments to these levels in response to market conditions, which had prompted Mr Bra Kanon to warn in February that his country would not support an agreement which encouraged price speculation.

It soon became clear, however, the producers in general and the Ivory Coast in particular were in a more compliant mood than they had been four months earlier. After eight days of talks, agreement was reached on the central economic provisions of the agreement.

The price range was set at between 85 cents and 121 cents a lb, and the consumers got their semi-automatic system, though with less stringent terms than those originally proposed.

Considering the consequences of failure, the market's reaction to the talks' success was decidedly muted. The futures market second position stood only £72 higher after agreement was reached than they had when the negotiations started.

This tends to confirm that traders are taking the view that nothing has really changed. The collapse of the agreement would definitely have been bearish for cocoa prices, but it does not necessarily follow that its survival is bullish.

Richard Mooney

Rubber

Prices unlikely to rise

NATURAL RUBBER producers face a gloomy future. Prices are likely to remain depressed for many years, and may even collapse, if the International Natural Rubber Agreement goes the same way as the tin agreement.

"The main problem is structural, leading to overproduction," says Datuk Paul Leong, the Malaysian Minister of Primary Industries.

"We can no longer regard the current depressed prices for tropical primary commodities as part of the traditional business cycles."

For the past decade, natural rubber production has been slowly, but steadily, exceeding world consumption. Economic recovery in the industrialised countries has not led to a level of demand that would, in the past, have triggered off a healthy price boost.

Natural rubber producers can only console themselves that NR has managed to halt its decline in its share of the world elastomer market against synthetic. The NR share is currently 32 per cent, compared with 29 per cent in 1980.

Rising NR output coincides with a more stable political climate in South East Asia, and important changes in car and tyre technology, leading to less rubber usage. Consumers are confident of supplies and are allowing their stocks to run at record lows.

This is particularly so now that the International Natural Rubber Organisation (INRO) has accumulated nearly 375,000 tonnes in its bufferstock after buying to support prices between 1981-85.

Current rubber prices are around 180 Malaysia/Singapore cents a kilo, just above the 176 cents "may buy" level of INRO.

These prices are an improvement over those prevailing last year, but represent a significant decline in values from the late 1970s and early 80s.

Current prices are reasonably profitable for Thai and Indonesian producers, but only marginally so for Malaysia whose production costs are about 20 per cent higher than its neighbours. The three South-east Asian countries together account for 80 per cent of the world's NR production.

Thailand and Indonesia will continue to increase their output as part of their economic diversification. Thai production, in particular, has been impressive, rising from 500,000 tonnes in 1983 to 710,000 tonnes last year.

If current trends continue, Thailand could replace Malaysia as the world's leading rubber producer by the year 2000 with an estimated output of 1.6m tonnes, while Malaysia and Indonesian production is estimated at 1.45m tonnes.

In Malaysia, rubber is increasingly becoming a smallholders crop as the big plantations switch to better paying crops like oil palm and cocoa.

Many plantations are adopting the policy that they will only plant rubber on land that is not suitable for oil palm or cocoa.

A major issue facing NR producers is the future of INRO. The Rubber Agreement is not perfect and has its critics among both producers and consumers. But it had served its purpose of stabilising prices.

Two rounds of negotiations, to renew the agreement in April last year and last May, had failed to bridge the wide gap between producers and consumers in the 32-member organisation, over fundamental issues such as the buffer price range, the size of the buffer stockpile, and the question of export controls.

A third and crucial round of negotiations is scheduled for October. The Agreement, which began in 1980, will expire in October 1987, having been extended by two years.

Consuming countries complain of the high cost of financing the buffer stockpile. Producers and consumers have put up equal amounts totalling more than US$350m to finance stockpile operations.

Consumers, confident of ample supplies, are unsympathetic to the producers' argument for better prices and want less market intervention.

On the other hand, producers are angry because they feel that consuming countries are going back against the spirit of the agreement.

Rubber cultivation is a long-term investment. Trees yield after seven years and continue to do so for another 25 unless cultivators can get some assurance of reasonable returns, they will not grow rubber.

The spectre of the tin price collapse, following the suspension of bufferstock operations by the International Tin Council last October, haunts South-East Asian rubber producing countries, who are also members of the ITC.

Their ministers will meet before the next round of rubber negotiations to try to find ways to secure a fair and equitable second rubber agreement.

"We want producer-consumer co-operation on commodities," says Datuk Leong. "If this is not possible, we will go for co-operation among producers. And if this is not possible, we will fall back on ourselves and devise national strategies to protect our own interests."

Wong Sulong

Natural Rubber Production and Consumption (in million tonnes)

	1984	1985	1986	1987
			(forecast)	
Malaysia	1.53	1.45	1.47	1.49
Indonesia	1.11	1.12	1.22	1.35
Thailand	0.63	0.71	0.75	0.78
China	0.19	0.20	0.21	0.24
India	0.18	0.20	0.21	0.23
World total production	4.26	4.35	4.49	4.73
World total consumption	4.24	4.32	4.43	4.56

Source: International Rubber Study Group.

International Agreements

Tin casts its shadow

ONE BY one, this year, the few remaining international price-stabilisation agreements for soft commodities have encountered serious difficulties.

First there was coffee: the International Coffee Agreement's export quotas were automatically lifted in February, following the sharp price rise stemming from the Brazilian drought.

Then there is natural rubber: producers and consumers have had two futile attempts to negotiate a successor to the present International Natural Rubber Agreement, but appear as far apart as ever on the key question of price.

The one brighter spot in the picture is the International Cocoa Agreement. Last week, producers and consumers finally agreed — at the fifth attempt, and after much political to-ing and fro-ing—on a new price-stabilisation pact for that commodity, to take effect when the present, inoperative agreement expires at the end of September.

But its terms—while meeting most of the consuming countries' demands—fall far short of what the producing countries wanted, and there remain serious doubts about whether it will prove really effective in the longer term.

Overshadowing all the commodity agreements has been the collapse of price support efforts under the International Tin Agreement last October. When the Tin Council's buffer stock manager ran out of money, and tin trading was forcibly suspended in London and Kuala Lumpur, shock waves spread through many of the softs markets. The agreements on coffee, rubber and cocoa are still, to some extent, suffering from uncertainty and mutual mistrust engendered in the tin crisis.

Of course, commodity agreements — although much in vogue during the 1960s and 1970s — had been falling out of favour in the West for some time before October 1985.

In the early 1980s, many western governments had become more inclined to look hard at the economic viability of individual agreements than to approve them as back-door mechanisms for giving aid to the Third World.

At least as important, commodity prices had faded from the public consciousness. Governments which had reached for price-stabilising agreements, in the general search for weapons against the rampant inflation of the 1970s, no longer saw the need for them.

Commodities were largely in surplus, and prices were on the way down. What is more, as is most dramatically illustrated by the travails of Opec, the power of producer cartels to hold the West to ransom had been sharply reduced. Why bother, then, with arduous negotiations to ensure security of supply and stability of price?

The US has led the pack. It refused to join the cocoa pact, and quit the tin agreement several years ago. *It also makes* great play of its philosophical objections to the coffee agreement — while staying in, on foreign policy grounds.

The only other agreement that it has tended to support is that on rubber—the last all-new commodity pact to be set up under the auspices of the UN Conference on Trade and Development. But even that backing is now in question, with key producers apparently prepared to see negotiations fail if they do not get significant price increases.

A number of other countries, though—including the UK, West Germany and, surprisingly, the Soviet Union — have taken an increasingly tough line on the level at which prices should be stabilised under commodity agreements.

This has brought into the open a controversy between producers and consumers that had been latent ever since commodity agreements began. The producers pressed, as they have been this year in negotiations on cocoa and rubber, for price *support* to reflect in some measure their production costs; but the consumers argued that price fluctuations should merely be ironed out around the long-term trend.

The tin crisis has sharpened these differences and injected a new element. On the one hand, the collapse of the price-support operation illustrated, to most consuming countries, the folly of supporting prices at an inflated level. The tin price sustained by the buffer stock encouraged producers outside the agreement—such as Brazil — to expand, leading to an eventually unmanageable glut of supplies.

In talks on the cocoa agreement, consumers were adamant that this pitfall should be avoided, and have succeeded in inserting mechanisms for adjusting the price fixed under the agreement at regular intervals.

On the other hand, the failure of efforts to rescue the tin market after the initial collapse also said something very significant about attitudes to commodity agreements among producers *as well* as consumers. It was, after all, Indonesia, the second largest producer, that finally scuppered the talks. Since then, Malaysia and Thailand — both major soft commodity producers, too — have publicly expressed their doubts as to whether commodity agreements work in general.

Where does this leave matters then? It means that, although the cocoa agreement has survived, the rubber agreement may well run out one year later without an effective economic successor.

It would thus be relegated to the status of a statistics-gathering organisation and be faced with the potentially disruptive task of selling off its existing buffer stock.

The fate of the coffee agreement is less clear. Many of the big producers are forecasting that export quotas will not be reimposed this year, at least. Nonetheless, when they do return, distributing them between the members will be an acrimonious business. Brazil, the biggest producer by far, has already warned that it will quit if its 30 per cent market share is not preserved.

Beyond the economic agreements, there is a host of other "consultative" pacts, which may serve as a model for the future — those on tea, jute, wheat and sugar, for example. But the days when such agree*ments had teeth look distinctly* numbered.

Nor is there any consensus at present on what to put in their place. Compensatory finance is one vogue phrase—along the lines of the International Monetary Fund facility which compensates commodity producers for a sharp drop in their foreign earnings, or the EEC's Stabex programme. But moves to extend either of these, or to set up a new scheme of this kind, look a long way off.

Andrew Gowers

London

Lost business not yet returning

THE London Commodity Exchange may not yet be out of the woods, but at least it has some idea of how it might get out. That is more than it could have claimed a year ago.

In the middle of last year, the situation on London's traditional soft commodity market looked little short of disastrous.

Volume in all three of its main futures contracts—in sugar, cocoa and robusta coffee—was sharply down. Several London traders were running into difficulties. Business was conspicuously going elsewhere—namely to Paris and New York. Another contract, in rubber, had effectively died for lack of interest.

In all, the LCE was looking singularly ill-prepared for an impending costly move to new premises. Its markets were fragmented, its overheads too high, its membership arguably too restricted and beset by parochial rivalries. And it was extremely uncertain how to get business back or to respond to the challenge provided by the City's new regulatory body, the Securities and Investments Board.

That was the uninspiring backdrop to the arrival last October of Mr Saxon Tate, a scion of the Tate sugar family, as the LCE's first full-time chairman.

Mr Tate came from a stint as chief executive of the Northern Ireland Development Board — and there must have been times in his first few weeks when he wished himself back in Ulster. The eruption of the tin crisis three-and-a-half weeks after he started — and the shock waves it caused in all the London commodity markets — was another blow that the LCE could have done without.

Nonetheless, there has been a marked improvement in the general mood at the Exchange over the last nine months — as a result of factors entirely beyond Mr Tate's control.

The most important of these is that trading volumes have bounced back. In the first five months of this year, LCE volume totalled 1.39m lots, a 38 per cent increase over the equivalent figure for last year.

In the whole of 1985 by contrast, trading volume in cocoa futures was down 28 per cent, and in sugar futures by 6 per cent.

The main boosts have been provided by the remarkable fireworks in the coffee market and the underlying improvement of sentiment in sugar.

But this news is only cheering up to a point. There is still no real sign that London is winning back business lost to rival centres in France and the US — although it may be doing more to hold its own. The LCE remains under severe competitive pressure, particularly in sugar, in which the Paris white sugar market has been a resounding success.

Mr Tate, who has never been under any illusions as to the magnitude of his task, is certainly anxious not to let LCE members sink back into complacency.

Since he took over, his essential message to them has been simple: the markets must broaden their appeal if they are to stand any chance of boosting liquidity and volume. And only increased liquidity will guarantee their long-term survival against the international competition.

"People will now trade in the best market, and that's entirely right," he said, soon after occupying the chairman's office. "They tend to look totally internationally. And if I'm trading I really don't like a thin market. It's clear . . . that we must turn to new sources of investment and liquidity."

But achieving that depends on getting a range of other things right—such as the cost, the regulatory environment and, to start with, the structure of the Exchange itself.

In January Mr Tate unveiled his blueprint for reform. Based on a debate which pre-dated his arrival, this called for the abolition of the terminal market associations that ran the individual markets; and for their replacement by a centralised, eventually profit-making, company in which LCE trading members would be shareholders. It also held out the prospect that LCE seats would be tradeable, and that the floor would be opened to "locals" (US-style floor traders dealing on their own account).

It seemed like strong medicine — a dose, indeed, which might just be too stiff for the traditionalists who still dominate the Exchange. But the first stage of the plan was approved in March, in time for the LCE to turn itself into a limited company by the start of the current fiscal year.

The present structure aims to emulate the big US exchanges, with power, promotion and a strong voice supposedly at the centre. But the resemblance is not really that close. The LCE is unlikely to have the sort of big budget at its disposal that its counterparts in New York and Chicago can spend.

It is also not clear whether Mr Tate is as free an agent as he would like to be. And that is an important fact, given that the LCE's major reforms still lie ahead.

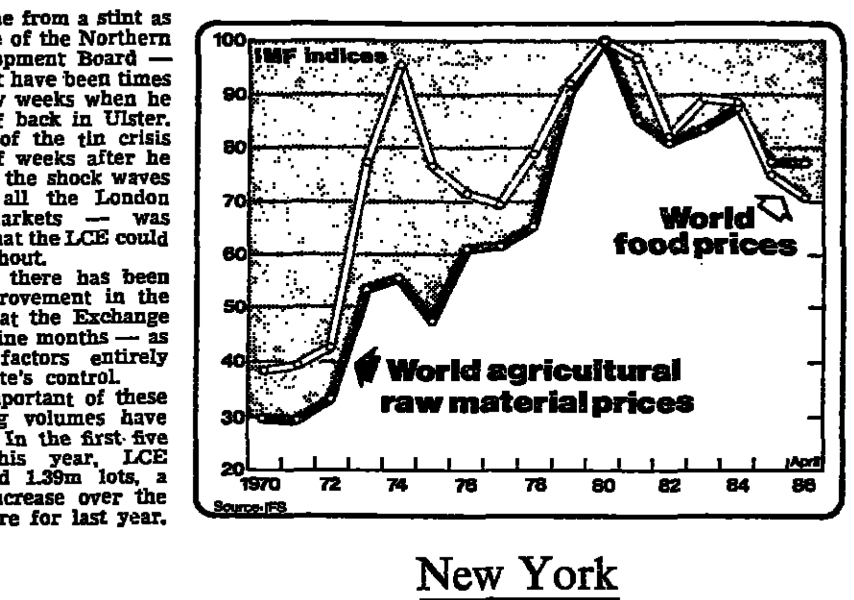
The big oportunity, as far as Mr Tate is concerned, comes with the planned removal of the Exchange next Easter to its new premises—equipped at a cost of about £5m—at Commodity Quay, by the Tower of London. He wants to use this moment to make changes in the way the markets conduct their trading, and, ideally, to admit more members on the floor.

The next step follows another American lead: the introduction of traded options, possibly from next May, has already been approved in principle by the LCE board. After that, Mr Tate hopes to get clearance to admit locals, as the London International Financial Futures Exchange has done. He sees this as the only obvious way of boosting volumes.

For the future, there is talk of new contracts, such as the long-mooted diamond futures, and of increasing co-operation with other commodity exchanges. But Mr Tate is determined not to rush into new ventures without sufficient preparation, as the LCE has tended to do in the past.

And before anything ambitious like that is attempted, he still has his work cut out to convince some of the LCE's more traditional members that what he is doing is the right thing. There are certainly some strong vested interests in the Exchange, who are likely to continue to fight change—and to resist the further opening of the market beyond its existing, largely "trade" membership.

Andrew Gowers



Saxon Tate . . . "People will now trade in the best market and that's entirely right."

New York

Exchanges look to diversification

TALK AMONG New York's traditional soft commodity futures exchanges is all of options and diversification.

But, in contrast to Chicago, where agricultural contract volume has long lagged behind the financial futures officials recognise that soft commodity futures are likely to remain the cornerstone of their institutions for the foreseeable future.

"We have recognised the need to look at diversification," says the Coffee, Sugar and Cocoa Exchange president, Mr Bennett J. Corn, "but basically we are happy with the products we are trading in traditional areas."

Neither the CSCE nor the New York Cotton Exchange was among the high flyers of 1985 in terms of year-on-year volume growth. While the CSCE's achievement in raising overall turnover by 9 per cent, to 4.58m contracts, should not be underestimated—(particularly in the light of the London Commodity Exchange's 10 per cent volume decline), volume at the New York Mercantile Exchange, a mere corridor away in the World Trade Centre, rose 46 per cent on the back of increased volatility in oil prices.

The alarming 38 per cent decline in New York Cotton Exchange soft commodities turnover in 1985, to 0.83m contracts, spoke volumes about the risks run by insufficiently diversified exchanges when volatility in their key product areas declines.

Ironically, the highlight of the NYCE's year was the satisfactory launch, in late November, of the first-ever dollar index futures contract, by its subsidiary, the Financial Instrument Exchange (FINEX). By contrast, one of the big disappointments for the CSCE was the failure of its own attempt to diversify — a consumer price index futures contract launched in June — to catch the market's imagination.

Happily, better-than-expected volatility and volume have provided a much needed boost for both exchanges in the opening months of 1986. January-to-April volumes on the CSCE coffee and No. 11 sugar futures contract were up 72 per cent and 53 per cent respectively, offsetting the still disappointing cocoa contract, which dropped a further 23 per cent — from corresponding-year earlier levels. Meanwhile, January-to-May cotton and organge-juice futures volume on the NYCE totalled 340,160 and 173,258 contracts respectively, compared with 636,492 and 130,758 in the whole of 1985.

Both exchanges are optimistic about prospects for the remainder of the year.

While coffee volatility, spurred early in the year by the decimated Brazilian crop, is expected to diminish over the second half, the CSCE expects sugar's new-found comparative buoyancy to continue. The ailing cocoa contract may also pick up, the thinking goes, now that a new International Cocoa Agreement has been negotiated.

Though the volume increase in the exchange's Arabica coffee contract has not kept pace with the LCE robusta contract's startling 103 per cent January-to-April growth rates, the CSCE remains very much in the box seat on sugar. The exchange traded 1.48m contracts on its No 11 futures during the January-to-April period this year, compared with the LCE sugar's 317,434.

This appears to have been designated "options year" by the exchange — a process which Mr Corn terms "product deepening."

After years in the doldrums, sugar options—launched as the first American options contract in October 1982 — have finally taken off, with January-to-May volume of 88,938 contracts, broadly similar to that achieved in the whole of last year.

The exchange finally launched cocoa options in March, and a coffee options contract is expected to start trading around mid-September pending approval by the Commodity Futures Trading Commission.

"I think coffee options will be a great medium for speculators wary of putting up the margin for futures," enthuses Mr James Bowe, CSCE senior vice-president for market development and planning.

NYCE president, Mr Joseph J. O'Neill, expects cotton volume to pick up substantially in the coming months, thanks to the about-turn in US agricultural policy enshrined in the new Farm Bill.

"Cotton has been very quiet for the last two years," he says, "because the minimum domestic price has been well above the world price." The commitment to bring US cotton prices into line with prevailing world levels should, in Mr O'Neill's view, boost exports, and lead in turn to "more hedging and an increase in exchange usage from outside the US. "We are very optimistic for cotton, and especially for our options contract," Mr O'Neill adds.

The exchange is also expecting volume on its new orange-juice options contract — launched in December 1985 — to increase strongly during the key November-to-February trading period. A contract revision, permitting delivery in tanks as well as drums, in line with current trade practice, will come into effect in September and should contribute further to a comparatively buoyant year for the commodity. "With Brazil now out-producing the US, orange juice is becoming an increasingly year-round market, because of the different growing seasons," says Mr O'Neill.

However sincerely New York exchange officials may swear their allegiance to traditional commodities, it seems likely that the major innovations will continue to come, as elsewhere, in the financial instruments sphere. "We want unique products," says the CSCE's Mr Bowe, bluntly. "And we are looking at everything — including financials — to evaluate where the best opportunities exist."

David Owen

Chicago

Farm futures in the shade

CHICAGO IS no longer, in the words of the local poet, Carl Sandburg, "Hog Butcher for the world, Tool Maker, Stacker of Wheat. . . ."

While it may still claim to be Pork Belly Futures Market for the world, and Hedger of Soya Bean Meal, agricultural contract growth rates at the city's three major futures exchanges (and they come no bigger than the Chicago Board of Trade and the Chicago Mercantile Exchange) have been overshadowed consistently in recent years by spectacular gains registered in the expanding range of financial futures contracts.

In 1976, out of just under 8m contracts traded on the CME—which began life as a butter and egg futures market—around 7m were in agricultural products. Over at the CBOT, more than 16m, out of around 19m, contracts were in agriculturals.

By 1985, while agricultural futures and options volume on the CME had climbed to over 9m contracts, total exchange volume was a staggering 56.5m. At the CBOT, agriculturals accounted for some 24m out of a total 83.8m contracts. A similar pattern is evident at the much smaller MidAmerica Commodity Exchange, recently effectively taken over by the CBOT.

With the domestic farm economy facing a period of retrenchment, as prices across a wide range of soft commodities are gradually trimmed to world levels, there is little sign of any impending let-up in this trend.

True, the CME's feeder cattle and live cattle futures contracts registered rather unexpected volume increases of 43.8 per cent and 24.9 per cent, respectively, in 1985, compared with the overall exchange volume increase of 26 per cent from 1984 levels. But pork belly and live hog futures cancelled out much of the cattle contract windfall, registering year-on-year declines of 23.6 per cent and 20.7 per cent, respectively.

With the price outlook for cattle bearish for the remainder of 1986, most feel that the encouraging 1985 figures are unlikely to be repeated. "Our research has shown that we get more trading when prices are high and less when they are low," says Mr Michael Gorham, CME, vice-president commodities research.

This has not prevented the live cattle contract getting off to a flying start, with first-quarter volume up 33.7 per cent from corresponding year-earlier levels, to offset declines registered in the majority of other agricultural futures contracts.

Volumes declined on all major CBOT-traded agricultural futures contracts in 1985, with maize down 29.3 per cent on the year and soya beans sinking as much as 35 per cent.

The Chernobyl nuclear accident did much to salvage first-half 1986 turnover figures, with maize and wheat futures volume up 3 per cent and 11.6 per cent, respectively in the January-May period. Soya bean futures lost further ground—down 1.2 per cent—and the soya bean oil contract fell a considerable 19.0 per cent. These figures should be viewed in the light of a 43.8 per cent volume rise for the exchange as a whole.

Longer-term, the shift in US agricultural policy should actually benefit the CBOT indirectly by boosting exports and therefore encouraging hedging. "The move towards international pricing has to be positive," said one exchange spokesman. "It will make for more US exporting—which is good for us—and may attract more foreign users to the exchange."

Already, the MidAm-owned Chicago Rice and Cotton Exchange has demonstrated its intention to cash in on the US Department of Agriculture's plan to reduce American rice prices to world levels by planning a revamped rice futures contract.

Meanwhile, all exchanges are looking to options to maintain some growth in the agriculturals as their financial futures and options contracts continue to boom.

Certainly, growth rates on agricultural options contracts so far trading have been impressive enough, despite sometimes declining volume in their underlying futures contracts. The CBOT's options on soya bean futures, for example, had a volume increase of 21.6 per cent in the January-May 1986 period, notwithstanding the decline in the soya bean futures contract itself.

The CFTC recently raised the maximum number of agricultural options per exchange from two to five contracts under its three-year pilot scheme, scheduled to run until January, 1987 (options on US agricultural products were banned entirely in the US between 1936 and 1984). This should be of particular benefit to the CBOT, which has been lobbying for such a move in order to introduce proposed options on soya bean oil and soya bean meal futures.

The exchange says it has detected considerable European interest in both proposed contracts. "We would like to have an option on every active traded futures contract," according to one exchange official.

But few expect the agricultural futures and options sector in Chicago to start making up lost ground on the financials, no matter how many agricultural options contracts the exchanges eventually launch.

"We think the main growth in our industry will continue to come in the financial area," says Mr Tom Bonen, Vice-President Market Planning and Support at the CBOT.

David Owen

Paris

Cocoa butter melts away

THE HOPED-FOR boost to commodity market trading in Paris, resulting from a new cocoa butter contract in April, has turned out to be a damp squib.

Trading in the contract has been negligible, and the Paris Commodity Brokers' Association is pinning hopes for more interest in the contract on a promotional campaign it hopes to launch with potential industrial users in the autumn.

The Brokers Association had hoped that the new contract would meet demand from chocolate manufacturers, keen to try to fulfil their purchasing schedules with the same futures techniques used already for cocoa beans.

But trading — carried out in 10-tonne lots, in either solid or liquid form — has failed to stimulate interest from the industry. Showing a certain lack of preparation for the new contract, a spokesman for the Brokers' Association said that efforts to inform users about the innovation had not yet been sufficient.

The failure of this effort to breathe new life into the Paris exchange comes as a further setback in a succession of blows for the Paris broking community.

The exchange took a psychological knock at the end of last year when its previous president, Mr Michael Wiart, was given a jail sentence after being found guilty of irregularities in dealings with private clients.

Exchange officials have been putting a brave face on the setbacks and has mooted the possibility of bringing in new contracts in rapeseed and pigmeat as well as an equity index contract.

But they admit that the Commodity Exchange has been overshadowed by the greater-than-expected success of the Paris financial futures market (Matif). This started in February and has attracted considerable volume from stockbroking and banking participants.

With the banks due to take an increasingly active part in the Matif, the chance for the commodity brokers to play a leading role in financial futures in Paris — a proposal originally put forward by Mr Wiart — now appears to be lost for ever.

Meanwhile, trading in the main Paris commodity contracts has been concentrated increasingly on sugar. Trading volume in white sugar, in the first five months of 1986, rose 45 per cent to 12.3m tonnes, with robusta coffee volume up ninefold to 91,545 tonnes from the highly depressed levels of 1985. Cocoa-trading volume, meanwhile, fell 85 per cent from the first five months of last year to 20,350 tonnes.

The exchange has been heartened by a higher increase in Paris sugar trading in the early months of this year than in either London or New York, officials believe that progressive deregulation of the Common Agricultural Policy — although this must remain a somewhat pious hope for the moment — could give opportunities for more futures market trading in EEC farm produce.

The Chicago Board of Exchange, meanwhile, has agreed to give Paris advice in marketing commodity futures and options, and the two exchanges plan to run joint seminars to try to help the Paris dealing community learn US trading methods. If Paris wants to get its cocoa butter contract off the ground, it could be that Chicago would have some ideas on that as well.

David Marsh

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price	+ or −	Net. Div.	Times Cov'd	Gross Yield	P.E. Ratio
§125	F.P.	24/7	167	136	‡Accord Publications 5p	167	......	Rd3.1	2.6	2.6	21.1
‖‖	F.P.	15/8	127	112	‡Airsprung Group 10p	115	......	5.4	2.8	6.6	7.6
§115	F.P.	—	141	128	‡Anglia Sec. Homes 10p	134	+2	R1.63	5.0	1.7	16.5
115	F.P.	11/7	190	155	Arlington Sec. 10p	175	......	b1.7	4.3	1.4	24.0
§67	F.P	8/8	71	68	‡BBB Design Grp 5p	70	......	L1.0	4.2	2.0	16.8
§145	F.P.	15/8	158	145	‡Benerco 5p	152	......	u5.0	2.4	4.6	12.0
‖‖	F.P.	—	59	41	Bertrams Inv. Tst	44	......	—	—	—	—
§37½	F.P.	25/7	43½	36	‡Bipel 5p	42½	+½	R1.225	3.1	4.1	10.6
125	F.P.	8/8	147	128	‡Borland Intl. Inc	134	−1	u02c	1.4	1.0	18.7
145	F.P.	25/7	175	148	Bredero Props	152	......	R4.25	2.3	3.9	12.9
§60	F.P.	20/6	61½	54	‡Brit. Isl. Airways 10p	55	......	bd2.82	2.1	7.2	7.7
§63	F.P.	6/8	69	61½	‡Camotech 10p	66	−2	R2.0	2.4	4.3	13.5
§110	F.P.	18/7	115	85	‡C'bell & Armstrong 5p	98	+1	u3.91	1.9	5.6	12.5
§125	F.P.	7/8	135	129	‡Chelsea Man 5p	129	−1	L2.2	2.8	2.4	21.2
‖‖	F.P.	18/7	110	85	Clarkson (Horace)	103	−2	L4.75	1.5	6.5	14.1
¶¶	F.P.	—	100	60	Clayform Warrants	60	−5	—	—	—	—
§84	F.P.	1/8	91	84	‡Coated Electrodes 5p	88	......	u3.9	1.6	6.2	13.7
237	100	—	110	90	Dee Corp.	90	−3	5.8	1.9	3.7	17.6
§58	F.P.	4/7	82	99	Denistron Intl 5p	80	......	u1.65	2.1	2.9	20.5
§70	F.P.	—	74	71	‡Fletcher Dennys Sys 5p	74	+1	L2.5	1.9	4.8	15.7
150	F.P.	25/7	155	150	Guthrie Corp	152	−3	e5.3	2.2	4.9	9.7
§92	F.P.	—	93	87	‡Hille Ergonom 10p	90	+3	L2.0	3.1	3.1	12.4
§85	F.P.	24/7	117	90	‡Hodgson Hldgs 5p	110	......	R2.13	2.3	2.7	20.0
§20	F.P.	—	23	21½	‡Hughes Food 5p	23	......	Ro.5	2.8	3.1	16.6
R30	Nil	—	325	180	Joel (H.J.) Ltd Units	180	−20	—	—	—	—
§154	F.P.	—	159	158	Kleinwort Dev. Fnd	158	......	—	—	—	—
100	F.P.	—	90	85	‡M6 Cash & Carry	88	......	u3.55	2.1	5.7	9.8
¶500	F.P.	—	516	443	Morgan Grenfell £1	443	−9	L8.5	—	2.7	—
§120	F.P.	—	120	115	‡Personal Computers 5p	115	−1	R3.0	3.3	3.7	11.7
§113	F.P.	—	114	114	St. David's Inv. Tst. Inc.	114	......	H68	—	8.4	—
§75	F.P.	—	77	76	Do Cap.	76	−½	—	—	—	—
§72	F.P.	15/8	160	99	‡Shield Group 5p	140	−5	L2.0	3.1	2.0	20.4
[illegible]	F.P.	1/8	184	162	‡Smallbone 10p	162	−2	u5.0	2.1	4.3	15.1
—	F.P.	—	55	43	Smith Newcourt War'ts	48	......	—	—	—	—
§40	F.P.	31/7	42	35	‡Soundtracs 5p	40	......	61.2	2.8	4.2	11.9
§98	F.P.	6/8	106	98	‡Space Planning 10p	102	+1	R1.8	3.4	2.5	16.6
§110	F.P.	—	125	119	Stanley Leisure	123	−2	u3.25	2.8	3.7	13.6
§95	F.P.	25/7	114	104	‡Task Force 5p	110	−4	R1.78	3.8	2.3	16.3
112	F.P.	8/8	130	116	Tenby 50p	128	......	u4.0	2.6	4.4	9.9
190	F.P.	1/8	242	219	Thames TV	222	−3	49.5	1.9	6.0	12.5
120	F.P.	6/8	130	100	Tibbet & Britten 5p	125	−1	R3.5	2.6	3.9	14.0
§63	F.P.	—	68	67	Unilock 20p	67	......	1.98	2.7	3.9	14.1
£12.70	Nil	—	260	130	Wight Collins RS $8	130	−30	—	—	—	—
106	F.P.	—	112	110	Windsmoor 5p	112	+2	u3.25	2.3	4.1	15.1

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price £	+ or −
§97.947	£25	17/9	27¾	25⅛	Bankers Inv. Tst. 10½% Deb. 2016	25⅛	......
§99.256	£30	29/8	30¾	26⅞	Brit. Alcan Aluminium 10⅞% Deb. 2011	26⅞	......
§94.203	£25	31/10	25¾	22¼	Brixton Est. 9.5% 1st Mort Deb 2026	22¼	......
§100p	F.P.	15/8	107p	105p	Business Mortgages Tst. 8.6% Conv Prf.	107p	......
109.89	£40	29/8	40	37¼	Estates & Gen. 11¼% 1st Deb. 2018	37¼	......
§94.45	£30	31/10	32¼	28½	European Inv. Bank 9% Ln 2001	28½	[illegible]
‖	Nil	29/8	5pm	2pm	‡Fergebrook 12% Cnv Uns Ln 1992-97	2pm	......
96.114	£25	24/10	27⅞	25	Globe Inv. 10% Deb. 2026	25	......
§99.054	£40	12/9	41⅛	39⅛	Govett Strat. Inv. Tst. 10½% Deb. 2016	39⅛	......
97.963	£25	24/10	25¾	19¼	Gt. Portland 9½% 1st. Mort. Deb. 2016	19½	+⅛
105.523	£25	21/8	26	18⅛	Land Securities 10% 1st. Mort. Deb. 25	18⅛	......
‖	F.P.	14/8	101½p	97p	Leigh Int. 6% Cav. Cum. Red. Prf.	98p	+1
§99.793	£25	24/9	24⅝	21	Lon. Shop Prop. 10% 1st. Mort. Deb. 2026	21	......
¶¶	F.P.	—	101	96	Mercury Intl. 7⅝% Conv Pref.	97	......
‖‖	F.P.	—	136p	136p	Morgan Grenfell 11¼% Conv Prf.	136p	......
—	F.P.	—	100	99	Nationwide 9 [illegible]% 6/7/87	[illegible]	[illegible]
—	F.P.	—	100¼	99⅞	Do. 10⅛ 27/7/87	99⅞	[illegible]
§99.937	£25	24/10	25⅛	23⅞	Do 3⅞% IL Ln. 2021	24	+⅛
¶100	£10	—	9	8	Newcastle & Gate. Wtr. 7% Red. Prf. 94/6	8	......
95.512	F.P.	8/8	98½	94¼	Scot. Mort. 6%—12% Str'd Int. Deb. 2026	95¼	+½
§105	£30	10/10	46	44½	Smith New Court 12pc Uns. Ln. 2001‡‡	45½	......
§99.073	£25	8/8	25¼	22⅞	Tops Est. 10¼% 1st. Mort. Deb. 2011/16	22¾	......
100	£50	12/9	50¾	46⅛	Witan Inv. 8½% Deb 2016	46¾	+⅛

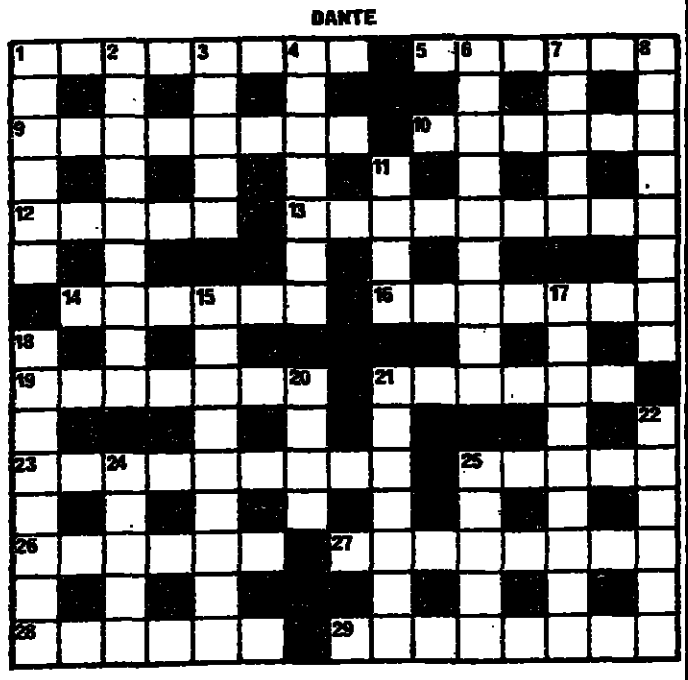
"RIGHTS" OFFERS

Issue Price	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or −
49	Nil	29/8	36pm	23pm	Abaco Invs. 5p	23pm	......
40	Nil	4/8	11pm	9pm	Anglo African Fin. 7½p	3pm	......
470	F.P.	4/8	670	570	Antofagasta Hldgs. £1	625	......
55	Nil	—	½pm	¼pm	Bertrams Inv. Tst.	½pm	......
250	Nil	12/9	30pm	3½pm	Boase Massimi Pollitt 12½p	3½pm	−1½
170	Nil	—	22pm	16pm	Coloroll 10p	16pm	−3
465	F.P.	29/8	565	536	Costain Group	536	−2
145	Nil	—	40pm	36pm	Dataserv. Inc. 5c.	36pm	−4
130	Nil	14/8	16pm	8pm	Erskine House	11pm	−1
165	Nil	28/8	20pm	7pm	Expamet Intl.	11pm	+1
140	F.P.	20/8	182	168	Instock Johnsen	168	−2
215	F.P.	15/8	278	235	Intl. Signal & Control 10c	235	......
200	Nil	—	20pm	10pm	‡Meadow Farm Prod. 10p	20pm	......
£14	Nil	12/9	230pm	220pm	Priest Marians £1	230pm	+10
44	F.P.	—	6pm	4½pm	‡Sheraton Secs. 10p	4½pm	......
25	Nil	11/8	29pm	25pm	Sovereign Oil & Gas	25	−1
90	Nil	—	2½pm	1pm	Top Value Inds. 10p	1pm	......
38	Nil	28/8	2½pm	¼pm	‡Yelverton Invs. 5p	¼pm	+⅛
41	Nil	—	35pm	25pm	‡York Mount	25pm	−2

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. t Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‖‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ▮ Allotment price. ‡ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement. ##Units comprising new ord. & Cnv. Cum. Red. Pref. shares.

FT CROSSWORD PUZZLE No. 6,080

DANTE



ACROSS

1 High-mindedness? (8)
5 Affected a stylish greeting (6)
9 Benevolence of a sort shown by the head (8)
10 Act wrongly and pinch a plant (6)
12 Worker encountered me coming back first (5)
13 All set to accept redundancy (5,2,2)
14 A fellow with plenty of time to run a business (6)
16 Tide may change between sunrise and sunset (7)
19 A new song-hit right away (2, 5)
21 Slim elves play around a sort of square (6)
23 Expert in money matters, i.e. in franc conversion (9)
25 A nut case (5)
26 Worker on edge in Ireland (6)
27 Directions for making machine parts (8)
28 Illegally take trick, all the tricks (6)
29 A free boarder (8)

DOWN

1 Inferior bangle? (6)
2 Certainly not obtained without resources (2,2,5)
3 The up-and-down principle (5)
4 Make watchful remarks? (7)
6 No lightweight character can make the headlines (5,4)
7 Can add to part of the poem (5)
8 I am conclusively shown to be better (8)
11 Music circle (4)
15 Foreign money in a foreign land (9)
17 Having private information? No, we think otherwise (2,3,4)
18 Wild-fowl prepare to move away from a group of predators (4,4)
20 Hard work one gets very much upset about (4)
21 An instrument of Eve's downfall (7)
22 It's brilliant knowing about timber (6)
24 Celebrated reply to unlucky Edward's proposal (5)
25 It may be drawn or sucked up (5)

SOLUTION TO PUZZLE NO. 6,079

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

AUTHORISED UNIT TRUSTS & INSURANCES

Wardley Unit Trust Managers Ltd (a)
Wardley House, 7 Devonshire Sq. EC2 01-929 1532

American Tst	62.8	67.4	-0.2	1.8
Far East & Gen Tst	101.7	108.7	+0.6	1.0
Intl Growth Tst	67.2	71.9	-0.6	0.7
Income Tst	83.4	89.7	-0.2	5.6
Japan Growth Tst	122.5	131.0	+0.8	0.2
Small Co. Tst	111.9	120.4	-0.6	2.0
Technology Tst	32.1	34.5	-0.3	0.2
Australian Trust	37.2	40.0		1.4
UK Trust	127.3	135.5	+0.1	2.7
European Growth Tst	48.6	52.1	-0.5	1.2
Hong Kong Tst	21.4	22.7	+0.1	1.6

Waverley Asset Management Ltd (a) (c) (g)
13 Charlotte Sq. Edinburgh 031-225 1551

Australasian Gold	16.2	17.3	+0.1	0.35
Pacific Basin	13.4	14.3		0.2
Canadian Balncd Growth	57.6	61.5	-0.5	0.98
Ginnie Mae	101.3	105.5	-0.1	7.3

WestAven Unit Trust Managers Ltd(a)(c)
9 Portland Square, Bristol BS2 8SS 0272 428431

British Smllr Co's (z)	54.6	58.5	-0.8	1.50
British Growth (z)	66.1	68.0	-0.8	2.00
British Income (z)	64.5	66.3	-0.5	5.00
British Extra Yield(z)	50.0	51.4	-0.4	7.00

Whittingdale Unit Trust Managers
2 Honey Lane, London EC2V 8BT 01-606 9085/6

Short Dtd Gilt Fd	67.4	68.5		0.00
U.S. Govmt Bond F	50.506	0.509		

Windsor Trust Mngrs Ltd
83 Kingsway, London, WC2B 6SD 01-405 8331

Comml & Equity Tst	47.8	50.9	-0.4	7.79
Growth Trust	51.1	54.4	-0.3	2.25
Income Trust	52.7	56.1	-0.4	5.22

Wright Seligman Fund Managers Ltd
11 Broadfield St, London EC2M 7AY 01-588 0592

Growth Fund	67.6	71.1	-0.1	2.95

Weekly dealing day Tuesday

The Yorkshire General Trust
Woodsome Pk, Fenay Bdge, Huddersfield 0484 602250

Y.G.T.	120.6	128.4	-1.0	3.54

INSURANCES

AA Friendly Society
(Investment Mngt M & G Inv Mngt Ltd)
PO Box 93 Cardiff CF1 4NW 0222 35542

AA Friendly Sy July 11		107.4	..

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

Prop. Ser. 1	205.8	216.7	+0.4	—
Equity Ser 1	98.7	103.9	-0.8	—
Prop. Acc. Ser 2	277.0	291.6	+0.5	—
Equity Ser 2	107.3	113.0	-0.7	—
Selective Acc.	233.2	245.5	-0.8	—
Prop. Ser 4	218.6	230.2	+0.4	—

Cannon Assurance Ltd—Continued

Index	110.4	116.6	-0.6	—
Far East	175.5	185.7	-1.0	—
Global	94.5	100.0	-0.1	—
European	97.7	103.4	+0.3	—
Japan	110.1	116.5	-0.3	—
2nd Series Pension Accumulation				
Equity	479.8	507.7	-7.3	—
High Income	315.7	334.1	-4.7	—
Property	280.8	297.1		—
Managed	333.7	353.1	-2.5	—
Deposit	250.2	264.8		—
Gilt	251.6	266.2	-1.7	—
American	376.4	398.3	-0.2	—
International Money	272.4	288.3	+2.8	—
Index	120.7	127.7	-0.7	—
Far East	190.4	201.5	-1.0	—
Global	94.5	100.0	-0.2	—
European	98.6	104.3	+0.4	—
Japan	114.2	120.8	-0.4	—
Other Funds				
Equity Units		65.23	-0.90	—
Property Units		21.32		—
Equity Bond/Exec	40.90	43.17	-0.53	—
Property Bond/Exec	28.75	30.42		—
Balanced Bond/Exec	33.03	34.94	+0.23	—
L&E SIF 1	108.5	114.5	-1.0	—
L&E SIF 2	71.0	75.0	-0.5	—

City of Edinburgh Life Assurance
46 Charlotte Sq, Edinburgh EH2 4HQ 031-225 1655

Ivory & Sime Bond	104.0	110.0	..	—
Risk & Reward Bond	118.0	125.0		—
Murray Johnstone Fd	116.0	123.0		—
Money Market Fd	100.0	106.0	..	—
Ivory & Sime Pens Fd	97.0	103.0	..	—
Risk & Reward Penr. Fd	100.0	106.0	..	—
Murray J'stone Penr. Fd	114.0	120.0	..	—
Money Market Pens Fd	100.0	106.0	..	—

City of Westminster Assurance
Sentry House 500 Avebury Boulevard, Cent Milton Keynes MK9 2LA Tel. 0908 606101/660888

Current Series				
Property Fund	113.9	119.9		—
Money Fund	219.7	231.3	+0.1	—
Managed Fund	403.3	424.6	-1.4	—
Equity Fund	251.0	264.3	-2.0	—
Fixed Interest Fund	149.3	157.2	-0.3	—
Far East Fund	198.0	208.5	-1.0	—
North American Fund	183.8	193.5	+0.1	—
Natural Resources Fund	126.2	132.9	-1.6	—
S.U.N. Flag Fund	118.8	125.1	-0.9	—
Pension Managed Fund	377.4	397.3	-1.2	—
Pension Equity Fund	239.5	252.2	-2.9	—
PBR Fund	123.4	129.9		—

For other prices please telephone 0908 606101/660888

Clerical Medical/Fidelity International
Narrow Plain, Bristol BS2 0JH 0272 290566

Investment Funds				
Mixed	129.4	136.3	-0.4	—
Equity	147.0	154.8	-1.2	—
Property	108.1	113.8		—
Gilt & Fixed Interest	115.5	121.6	+0.8	—
Indexed Securities	100.3	105.6	.	—
Cash	106.6	112.3		—
North American	105.1	110.6	+0.9	—
Far East	127.5	134.3	-0.1	—
International	143.3	150.9	-0.6	—
Special Situations	120.0	126.4	-0.1	—
International Income	136.4	143.6	-0.8	—
American Income	112.4	118.3	-0.1	—
European	133.7	140.8	-0.5	—

Flexible Retirement Plan

[illegible]

INSURANCE, OVERSEAS & MONEY FUNDS

Brown Shipley Fund Mgmt (CI) Ltd
PO Box 583, St Helier, Jersey 0534 74777

Sterling M/DM(Daily)	£10.89	11.28	.....	9.4
Sterling Cap (Daily)	£21.37	21.38	.....	—
Intl. Bond (Daily)	$14.72	15.54	.....	5.75
Int Currency (Wed)	$1.35	1.42	.....	4.84

Butterfield Management Co Ltd
PO Box 195, Hamilton, Bermuda

Buttress Capital		$14.18	.....	—
Buttress Equity Acc	$7.22	7.55	.....	—
Buttress Inc Acc	$4.58	4.79	.....	—

CAL Investments (IoM) Ltd
16 St Georges Street, Douglas, IoM 0624 20231

CAL C & C*	97.6	99.4	.....	—

*Dealings Monday. **Dealings daily

CAL Investments (Bermuda) Ltd
PO Box 1022, Hamilton, Bermuda (809-29) 55950

CAL Futures Fund	141.29	144.17	.....	—

Capital International
43 Boulevard Royal, Luxembourg

Capital Int. Fund		$60.86	.....	—

Capital Preservation Fund Intl.
34 rue Aldringen, Luxembourg 1118

Cap Pres Fund		$12.18	+0.01	—

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

[illegible]

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

NOTES

[illegible]

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		p
Allied-Lyons	30	NEI	11
BAT	35	Nat West Bk	48
BOC Grp	28	P & O Dfd	45
BSR	11	Plessey	18
BTR	28	Polly Peck	16
Babcock	17	Racal Elect	16
Barclays	45	RHM	20
Beecham	40	Rank Org Ord	45
Blue Circle	55	Reed Intnl	75
Boots	22	Sears	12
Bowaters	30	TI	42
Brit Aerospace	45	Tesco	32
Brit. Telecom	17	Thorn EMI	40
Burton Ord	28	Trust Houses	15
Cadburys	17	Turner Newall	18
Charter Cons	22	Unilever	128
Comm Union	28	Vickers	40
Courtaulds	26	Wellcome	17
FNFC	17	**Property**	
Gen Accident	75	Brit Land	16
Gen Electric	17	Land Secs	30
Glaxo	85	MEPC	32
Grand Met	34	Peachey	24
GUS 'A'	85	Samuel Props	25
Guardian	75	**Oils**	
GKN	32	Brist. Oil & Min	2½
Hanson Tst.	16	Brit Petroleum	48
Hawker Sidd	48	Burmah Oil	30
ICI	55	Charterhall	4
Jaguar	38	Premier	3½
Ladbroke	32	Shell	55
Legal & Gen	24	Tricentrol	11
Lex Service	28	Ultramar	18
Lloyds Bank	38	**Mines**	
Lucas Inds	52	Cons Gold	40
Marks & Spencer	18	Lonrho	24
Midland Bk	44	Rio T Zinc	50

A selection of Options traded is given on the London Stock Exchange Report Page.

Ireland lifts NZ butter veto

BY TIM DICKSON IN BRUSSELS

UK IMPORTS of New Zealand butter will be slightly lower than expected in the next couple of years following a compromise agreed in Brussels yesterday by the EEC's Foreign Affairs Ministers.

The new proposal—which provides for a New Zealand butter quota of 76,500 tonnes in 1987 and 74,500 tonnes in 1988—compared with this year's level of 79,000—was put forward by the British Presidency and the European Commission in an attempt to satisfy Mr Peter Barry, Ireland's Foreign Affairs Minister.

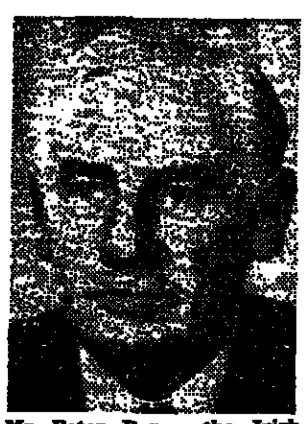
The Irish, who had vetoed the original Commission figures of 77,000 and 75,000 at last week's Council of EEC Farm Ministers, surprised observers by maintaining their tough stance when the issue was raised on Monday and then again yesterday.

Mr Barry argued that a much bigger cut was needed in view of the record butter surpluses in Community stores—one reflecting the 3 per cent decrease in the Community's own milk quotas agreed earlier this year.

It seemed clear yesterday that, whichever way you looked at the figures, the new agreement probably falls short of this aim.

But Mr Barry, whose dairy farmers depend on the UK as an important outlet for their own products, was nevertheless pleased with the outcome, claiming an important victory for principle.

The Irish were also attaching significance to the Council's acknowledgement that "major difficulties exist on the Community butter market, particularly in the UK, which result from changing production and consumption factors over the past decade" and that "special access arrangements for New Zealand butter after 1988 would be examined in the light of these factors."



Mr Peter Barry, the Irish Foreign Affairs Minister

It is now widely suspected in Brussels that this round of negotiations were influenced by France's recent bilateral deal with New Zealand over the Rainbow Warrior affair. In return for the handing over of its two secret agents—timed for later this week—France agreed not only to pay a substantial sum of money but to drop its long standing opposition to EEC imports of New Zealand butter.

With none too subtle timing the Commission then unveiled proposals for quotas which by many accounts were higher than those privately favoured by the EEC Farm Commissioner Mr Frans Andriessen.

France, which has not been hiding its desire for roughly simultaneous agreement on the butter question and the physical transfer of its agents, will be relieved by the outcome of yesterday's meeting.

New Zealand butter quotas were first introduced when Britain joined the Community in 1973. But while they have been substantially reduced in the last 13 years, many feel that the New Zealanders have had ample time to adjust

'Mobilisation' of commodity fund urged

The $256m common fund held by the UN Conference on Trade and Development (Unctad) should be mobilised to help producers suffering from low commodity prices and falling export revenues, a senior Unctad official said in Kuala Lumpur yesterday, reports Reuter.

Mr Alister McIntyre, Unctad's deputy secretary general, told a commodities seminar that the current climate was not conducive to the creation of more commodity agreements, for which the fund was collected, but the money could be used in other ways.

It could help finance development projects, he suggested, to help producers diversify out of products in oversupply.

Mr McIntyre said producer countries should work towards co-ordinating production policies to avoid excess supplies and adopt marketing strategies to try to stabilise prices and eliminate unfair trade practices.

Commodity exchanges in developing countries should try to increase the number of participants so as to improve hedging opportunities.

Malaysia announces $26m aid package for tin industry

BY WONG SULONG IN KUALA LUMPUR

THE MALAYSIAN Government yesterday announced a 70m ringgit ($26.7m) financial package and a 15 per cent cut in electricity rates to help the country's depressed tin mining industry.

Under the package, approved by Dr Mahathir Mohamad, the Prime Minister, miners would get soft loans without collateral, at 6 per cent annual interest, from the Government when the tin price is below 18 ringgit a kilo, to be repaid when the price exceeds R18.

At the current price of R14.2 a kilo, Malaysian miners would be eligible to softloan of R3.8 for every kilo of tin they sell on the Kuala Lumpur Tin Market. The scheme will operate for one year.

Datuk Paul Leong, the Minister of Primary Industries, said there are currently 170 mines operating in the country, employing 10,500 people, producing 28,000 tonnes of tin a year, values at R345m (based on R15 a kilo).

"If nothing is done to help the industry, the number of operating mines would be reduced to 60, employing only 5,300 workers, producing 12,000 tonnes a year, valued at R180m," he said.

He believed tin prices would improve to R18 after a year, and rise to between R21 and R24 after two to three years when the current 100,000 tonnes of excess stock in the market has been depleted.

He said the Government considered a price of between Ringgit 21 and Ringgit 24 to be the equilibrium price, and at the level Malaysia should have 300 operating mines, with 14,400 workers, and an annual output of 38,000 tonnes, valued at between Ringgit 800m and Ringgit 900m.

Miners welcomed the financial package as a timely boost to the industry, but observers say it was obviously timed to win votes for the Government, particularly in the Chinese populated tin mining regions, for the General Election on August 3.

Meanwhile, World Bank officials told an international commodity seminar in Kuala Lumpur that they expect the tin price to remain depressed until 1988 when it is expected to average $6 a kilo, rising to $7.5 in 1989, $8.6 in 1990, $11 in 1995, and $13 by the year 2000.

Tin production this year is expected to fall to 156,000 tonnes compared with 193,000 tonnes last year.

The Bank also forecast a rise in non-ferrous metal prices over the next 15 years with the copper cathode price at an estimated $1,500 per tonne in 1987, $1,650 in 1988, $1,806 in 1989, $1,984 in 1990, $2,730 in 1995 and $3,322 in the year 2000.

In another paper, the International Monetary Fund said commodity prices are expected to fall by a nominal 2 to 3 per cent during 1986.

Mr William Hood, the fund's research director, said: "The (price) gyrations of the 1980s and the recent sharp drop . . . are creating grave problems. There is no easy quick way of remedying the situation."

He added that improved market conditions will not come through commodity agreements, but by the slow process of reducing supplies from high cost producers and through sustained world economic growth.

Export subsidies and the US farm vote

BY NANCY DUNNE IN WASHINGTON

AFTER FIVE years of hard times this could be the year when hundreds of thousands of American farmers express their discontent through the ballot box. They gave President Reagan a resounding vote of confidence two years ago, but the situation has since worsened and signs of discontent are as plentiful as the US grain harvest.

Last month the Commerce Department shocked the agricultural community by reporting a $348m deficit in US agricultural trade for May—the first deficit in 27 years. The indications are that June and July will also show a shortfall. It is just six months since the President signed the new Food Security Act slashing prices to make US grain once again competitive on the world market.

The betting among farm lobbyists is that the Administration, fearful of losing its slim three-vote majority in the Senate in November, will have to act this summer to boost exports.

One option under study—incredibly, for this virulently anti-communist government—is an enlargement of the "export enhanced" programme (EEP) which would subsidise grain sales to the Soviet Union and other "loyal" customers.

Senator Robert Dole, the majority leader, who would like to run for the Presidency in 1988, has been a leading advocate of an expanded subsidies programme. The EEP programme offers a bonus of government-owned crops as inducement for commercial exports. The administration initiated the scheme, holding its noses and under heavy pressure from congress only to bring the EEC to an understanding of the evil of subsidised exports, and bonuses have been targeted towards North Africa and the Middle East in an effort to "regain" lost American markets.

The EEP, says Mr Derwent Renshaw, agriculture secretary at the EEC delegation in Washington, has—like the lower loan rates—reduced prices "rather drastically." He finds it interesting to watch the Administration "agonising" over whether or not to extend export subsidies to the Soviets, who are already benefitting from the lower loan rates and production subsidies.

Meanwhile, the original purpose of the EEP scheme has been lost in the general concern over exports. US farm exports have fallen from 163.9m tonnes in 1980, when the Soviets were still major purchasers, to a projected 122.5m tonnes this year. The International Trade Commission recently reported a decline in US grain sales to the non-market economies from $859.6m in the first quarter of last year to $271.4m in the first quarter of 1986.

Despite numerous acreage reduction programmes, US stocks are at record levels, and in some towns excess grain is filling the streets.

The Soviets, who are committed under a long term grain agreement to buy 4m tonnes of wheat each year, bought only 2.9m tonnes last year after being denied the bonus crops available to others. So far this year they have bought only 153,000 tonnes, and they have purchased precious little elsewhere with the possible exception of Eastern Europe. Clearly, they are playing a waiting game—delaying their deal-making until prices drop in the autumn and hoping American commodity bonuses will come their way.

The time may now be ripe for a US-USSR deal. There have been poor growing conditions in the Ukraine, Kazkhstan and parts of Western Siberia. The US Department of Agriculture has reduced its USSR grain crop estimate to 180m tonnes, and private forecasters are predicting that output could go much lower. Meanwhile, the administration is anxious for a summit this year.

Shortly after meeting with President Reagan last week to urge action on farm exports, Senator Dole announced at a Press conference that the Administration is "actively considering" expanding the EEP programme to the Soviets. A spokesman for Mr Richard Lyng, the Agriculture Secretary, said the Administration has no plans for a change in the programme "at this time," but it is known that Mr Lyng advocated the expansion in a meeting of the cabinet-level economic policy council last week, and the issue is to be considered again this week.

Other options are under consideration. There is a lot of pressure to extend the so-called marketing loan programme to grains. The scheme, now offered to rice and cotton growers, hands out government money to bridge the gap between loan supports and prices earned on the world market.

Mr Lyng opposes this scheme on grounds of cost, but other possibilities, like an expansion of food aid, could be just as expensive. The Administration has shown its greatest generosity with government stocks, which at least removes one price-depressing factor — and which could quite logically bring them back to offering bonus crops for all "loyal" customers.

MR BOB HAWKE, the Australian Prime Minister, has sent a note to President Reagan protesting strongly against moves by American politicians and wheat growers to push for the extension of wheat export subsidies to the Soviet Union and China, writes Emilia Tagaza in Canberra.

Mr Hawke said the sale of subsidised wheat to the countries, to which Australia sold about A$671m (£280m) worth of wheat last year, would have a devastating impact on Australian farmers.

Mr John Kerin, the Minister for Primary Industry, said the Government would exert every effort at the political and diplomatic levels to twart the campaign.

Meanwhile, the Australian Wheat Board has announced record wheat shipments of almost 16m tonnes for last financial year, an increase of 1m tonnes on the previous year. But the Board's chairman, Mr Clinton Condon, said the outlook for the next 12 months is dim. He said prices will fall further because of the current big stockpile of about 150m tonnes, out of which 50m are in the US and 18m are in Europe.

Wheat Council highlights trade war's futility

BY ANDREW GOWERS

THE INTERNATIONAL Wheat Council, the London-based organisation which groups the world's grain exporting and importing countries, yesterday underlined the apparent futility of the present subsidy battle in the cereal market.

In its regular market report, it said that the major wheat exporters, by resorting increasingly to special export promotion measures, were likely to succeed merely in redistributing trade between themselves rather than in creating any new demand.

It also highlighted the extent to which wheat buying countries are currently playing a waiting game in the expectation of lower world market prices. The report said that as of July 1, exporting countries' forward wheat sale commitments totalled only 17.67m tonnes, compared with 24.86m a year earlier.

While pointing out that figures should be treated with caution since they include estimates of quantities committed under bilateral agreements—which may not be the same as what is eventually purchased—the IWC said they do indicate that most buyers anticipate even lower prices and more competitive terms.

The drop in forward export commitments mainly reflected declines in the figures for the Soviet Union (to 6m tonnes from 14.6m) and Egypt (to 2.08m from 3.6m).

And it comes in spite of a cut in the IWC's overall 1986 world wheat production estimate. The Council said wheat production was forecast at 509m tonnes, compared with its previous estimate of 515m and last year's figure of 511m. The drop was principally a result of a 5m tonne cut in estimated Soviet production.

World 1986-87 wheat consumption was put at 518m tonnes and the IWC has dropped its estimate for 1986-1987 wheat trade by 1m tonnes to 90m. As a result, world carryover stocks at the end of the 1986-87 marketing year are forecast to be 149m tonnes, 7m lower than at present and 3m lower than previously estimated.

In the coarse grains, by contrast, the IWC has raised its production estimate by 3m tonnes to 520m. This stems from a sharp increase in expected US output, which is likely to be only partly offset by reductions for the Soviet Union, Spain and Thailand.

Yesterday's report also by implication casts a cruel light on the US Export Enhancement Programme. It says that an exporter's share of total world wheat trade depends heavily on the extent of its dependence on four markets—the Soviet Union, China, Iran and India—and that a significant decline in a supplier's sales to this group can mask its success in maintaining or increasing total sales to other destinations. None of these four has figured in the EEP in a big way.

LONDON MARKETS

COFFEE futures prices rebounded following Monday's heavy setback and the September position finished the day £73.50 up at £1,901 a tonne. But dealers said trading was light and mainly technical in the absence of fresh fundamental news. Monday's £85 fall had been triggered by reports of heavy rain in Brazilian growing areas over the weekend, which relieved growing doubt fears. But Accu-Weather, the US meteorological agency, said yesterday that more rain would still be welcome. There was no likelihood of frost in the coffee belt until Friday at the earliest, the agency said. The uptrend in cocoa prices was halted with the September position, which had gained £65 in the preceding four trading days, ending £9.50 down at £1,429 a tonne. Dealers said the market appeared to be consolidating following the rise inspired by the surprise renegotiation of the International Cocoa Agreement in Geneva last week.

ME prices supplied by Amalgamated Metal Trading.

ALUMINIUM

	Unofficial close (p.m.) £ per tonne	+ or —	High/low
Cash	758.5-8.5	+10	—
3 months	762-3	+8	769/756

Official closing (am): Cash 749-9.5 (746-7), three months 766.5-7 (765.5-6), settlement 749.5 (747). Final Kerb close: 761.2. Turnover: 22,325 tonnes.

COPPER

Official closing (am): Cash 893-3.5 (891-1.5), three month 909.5-10.5 (907.5-8), settlement 893.5 (891.5). Final Kerb close: 915-16).

Grade A	Unofficial close	+ or —	High/low
Cash	894.5-5.5	+6	893.5/842.5
3 months	914-4.5	+8.5	916/908.5
Standard			
Cash	866-7	+6	866.5/884
3 months	887-8	+4.5	914/885

Official closing (am): Cash 864-4.5 (856-7), three months 884-5 (880-2), settlement 864.5 (857). US Producer prices 62-67 cents a pound. Total Turnover: 29,800 tonnes.

LEAD

Official closing (am): Cash 251.5-2 (247.5-8), three months 255-5.5 (253.5-4), settlement 252 (248). Final Kerb close: 255-6. Turnover: 9,200 tonnes. US Spot: 21-24 cents a pound.

	Unofficial close (p.m.) £ per tonne	+ or —	High/low
Cash	251-1.5	+2.5	—
3 months	255.5-6	+2	259/254.5

NICKEL

	Unofficial close £ per tonne	+ or —	High/low
Cash	2620-5	+15	—
3 months	2665-75	+12.5	2698/2665

TIN

KUALA LUMPUR TIN MARKET—Close: 14.20 (14.28) ringgit a kg. Down 0.8.

ZINC

High grade	Unofficial close (p.m.) £ per tonne	+ or —	High/low
Cash	546-9	+1	—
3 months	541-2	+1.5	544.5/540

Official closing (am): Cash 545-7 (549-9.5), three months 539-40 (540-1), settlement 547 (549.5). Final Kerb close: 543-4. Turnover: 5,050 tonnes. US Prime Western: 41.5-44.75 cents a pound.

GOLD

Gold was unchanged from Monday's close in the London bullion market yesterday, finishing at $353¾-354. The metal opened at the same level and traded between a high of $354¼-354¾ and a low of $352¾-353¼. Trading was extremely quiet and featureless with gold confirmed to a very narrow range.

Official closing (am): Cash 2,610-5 (2,605-15), three months 2,657-60 (2,650-5), settlement 2,615 (same). Final Kerb close: 2,680-90. Turnover: 516 tonnes.

GOLD BULLION (fine ounce) July 22

Close	$353¾-354	(£237-237¼)
Opening	$353¾-354	(£236¾-237¼)
M'n'g fix	$353.50	(£236.326)
Aft'n'n fix	$353.50	(£235.950)

GOLD AND PLATINUM COINS

Kr'g'r'nd	$352-354	(£235-237)
½ Krug.	$184¼-186	(£123¾-124¾)
¼ Krug.	$94-95	(£63-63½)
1/10 Krug.	$38-39	(£25½-26)
Mapleleaf	$362¼-365¾	(£245¼-245¼)
Angel	$361-364	(£240½-242½)
1/10 Angel	$36½-39½	(£24¼-26¼)
New Sov.	$84-86	(£56-58)
Old Sov.	$88¼-90	(£59¼-60¼)
$20 Eagle	$410-460	(£274¼-307½)
NoblePlat	$459¼-464½	(£307-310½)

SILVER

Silver was fixed 0.35p an ounce higher for spot delivery in the London bullion market yesterday at 336.35p. US cent equivalents of the fixing levels were: spot 502.5c, down 0.35c; three-month 510-15c, down 0.35c; six-month 518.4c, down 0.4c; and 12-month 535c, down 0.2c. The metal opened at 335½-337p (501-503c) and closed at 336½-338p (502-504c).

SILVER per troy oz	Bullion Fixing Price	+ or —	L.M.E. p.m. Unoffic'l	+ or —
spot	336.35p	+0.35	336.50p	+7.00
3 months	344.55p	+0.55	344.75p	+7.70
6 months	352.90p	+0.40	—	—
12 months	369.55p	+0.90	—	—

LME—Turnover: 21 (73) lots of 10,000 oz. Three month high 345, low 342, final kerb 344-5p.

MEAT

Meat prices closed unchanged in lacklustre conditions, reports Eastern Capital CCST. Cattle sales: Nil (nil) lots of 5,000 kg. Pigs sales: Nil (5) lots of 3,250 kg.

Month	LIVE CATTLE Y'day's close	+ or —	LIVE PIGS Y'day's close	+ or —
Aug	98.80	+.50	98.80	+2.70
Sept	98.60	+.10	—	—
Oct	100.00	+.60	103.80	—
Nov	100.30	+.80	105.00	+90
Jan	98.80	+.30	—	—
Feb	91.30	-.90	99.80	—

MEAT COMMISSION—Average fatstock prices at representative markets: GB—Cattle, 96.89p per kg lw (-0.61): GB—Sheep, 167.64p per kg est dcw (-9.61): GB—Pigs, 74.28p per kg lw (+0.86).

INDICES

REUTERS

July 22	July 21	M'nth ago	Year ago
1439.2	1435.6	1528.5	1677.5

(Base: September 18 1931 = 100)

DOW JONES

Dow Jones	July 21	July 17	Month ago	Year ago
Spot	126.09	126.30	—	115.59
Fut.	115.76	114.76	—	116.47

(Base: December 31 1931=100)

MAIN PRICE CHANGES

In tonnes unless otherwise stated.

	July 22 1986	+ or —	Month ago
METALS			
Aluminium			
Free Market	$1270/280	+5.0	$1240/268
Copper			
Cash Grade A	£895	+6.0	£919.5
3 mths	£914.25	+8.5	£937.5
Gold Troy oz	$353.75		$343.25
Lead Cash	£251.25	+2.5	£278.5
3 mths	£255.75	+2.0	£276.5
Nickel			
Free Mkt	177/187c		185/215c
Palladium oz	$112.75	-0.75	$110.00
Platinum oz	$446.50	-1.25	$434.75
Quicksilver†	$190/200		$210/220
Silver troy oz	335.35p	+0.85	334.35p
3 months	344.55p	+0.85	342.15p
Tin			
free mkt	£3800/850		£3800/840
Tungsten	$54.42		$58.73
Wolfram 22.0lb	$42/50		$42/50
Zinc	£546.5	+1.0	£529.5
3 months	£541.5	+0.5	£534
producers	$840		$840
OILS			
Coconut (Phil)	$230y	-5.0	$252.5
Palm Malayan	$225.0x	-7.5	$245
SEEDS			
Copra Phil	$145y		$160
Soyabean (U.S.)	$167y	+5.0	$154
GRAINS			
Barley Fut. Nov.	£104.10	+0.75	£97.75
Maize	£136		£134.50
Wheat Fut. Nov.	£104.10	+0.20	£98.60
No. 2 Hard Wint.	‡		‡
OTHERS			
Cocoa Ft. Sept	£1429.0	-9.5	£1280.5
Coffee Ft. Sept	£1901.0	+73.5	£1770.5
Cotton A Ind.*	36.80c	+0.05	40.00c
Gas Oil Sept.	$101.0	-7.25	$113.75
Rubber (kilo)	60.25p		57.5p
Sugar (raw)	$141.5w	+3.5	$146.5
Wooltops 64s	402p kilo		415p kilo

‡ Unquoted. † Per 75 lb flask. c Cents per pound. y July-Aug. z Aug. w Aug-Sept. x Oct. * Cotton Outlook.

COCOA

COCOA	Yesterday's close £ per tonne	+ or —	Business Done
July	1398-1408	+2.0	1408-1380
Sept	1428-1430	-0.5	1440-1412
Dec	1457-1458	-4.5	1478-1454
March	1496-1499	-5.5	1507-1485
May	1512-1520	-0.5	1520-1505
July	1528-1533	-2.0	1533-1520
Sept	1545-1546	-3.0	—

Although trading £10 higher during the opening call futures failed to hold the gains and eased more than £25 before rallying late in the day to close unchanged. Some light producer interest was seen but consumers again declined to participate either for cocoa beans or products at current levels, reports Gill and Duffus.

Sales: 4,456 (4,482) lots of 10 tonnes.

ICCO indicator prices (US cents per pound). Daily price for July 22: 94.32 (95.21); five-day average for July 23: 93.18 (92.66).

COFFEE

A strong performance on the "C" contract prompted a recovery in terminal prices today, reports Drexel Burnham Lambert. Renewed roaster interest added support in the afternoon as the New York market continued to firm.

COFFEE	Yesterday's close	+ or —	Business Done
July	1880-85	+65.0	1890-48
Sept	1900-02	+73.5	1905-55
Nov	1930-35	+69.5	1937-85
Jan	1955-60	+65.0	1955-21
Mar	1975-80	+53.0	1985-88
May	1985-90	+47.5	2000-70
July	2010-29	+54.5	—

Sales: 3,673 (3,288) lots of 5 tonnes.

ICO indicator prices (US cents per pound) for July 21: Comp. daily 1979 154.78 (154.26); 15-day average 145.15 (144.25).

SOYABEAN MEAL

	Y'ster'dys close £ per tonne	+ or —	Business Done
August	125.0-128.0	-2.50	—
October	125.0-126.2	-1.80	126.8
Dec.	125.0-125.5	-2.30	127.0-125.8
Feb.	127.0-128.5	-1.80	—
Apr.	128.5-130.0	-1.75	—
June	128.5-127.5	-1.15	—
August	121.5-127.5	-2.30	127.5-127.5

A lethargic opening saw prices marked up 50p but then came under good professional selling, further declines were registered in the afternoon with commercials adding to the earlier selling causing values to finish weak and on the lows, reports Muirpace.

Sales: 240 (225) lots of 20 tonnes.

GRAINS

Business done—Wheat: Sept 101.25-0.90, Nov 104.25-3.90, Jan 107.40-7.00, March 109.80-9.66, May 112.00 only. Sales: 387 lots of 100 tonnes. Barley: Sept 101.10-0.55, Nov 104.10-3.55, Jan 107.40-6.70, March 109.70-9.00, May 110.65 only. Sales: 306 lots of 100 tonnes.

Mnth	WHEAT Yesterday's close	+ or —	BARLEY Yest'rdy's close	+ or —
Sept	101.10	+0.30	101.10	+0.65
Nov	104.10	+0.30	104.10	+0.75
Jan	107.25	+0.25	107.25	+0.75
Mar	109.75	+0.15	109.70	+0.55
May	112.05	+0.25	110.60	+0.45

HGCA—Herewith today's locational ex-farm spot prices: Feed Barley: S. East 95.20, S. West 95.20, W. Mids 93.00, N. West 95.40. The UK monetary coefficient for the week beginning Monday July 28 is expected to change to 1.130.

LONDON GRAINS—Wheat: US Dark Northern Spring No. 1, 15 per cent: Aug 94.25, Sept 93.25, Oct 96.25 sellers, transhipment East Coast. US No. 2 Soft Red Winter: Aug 89.75, Sept 91.00, Oct 93.25 sellers. EEC second-half July: 117.50. English feed, fob: Sept 102.00, Oct 104.50, Oct/Dec 107.50, Jan/March 112.50, April/June 115.50 buyers. Maize: US No. 3 Yellow/French, transhipment East Coast: July 136.00. Barley: English feed, fob: July 102.00, Aug 101.00, Sept 102.50, Oct/Dec 107.50, Jan/March 112.50 buyers. Rest unquoted.

POTATOES

Rain in Europe and South East brought out sellers during the morning, with April losing 10.60 on opening before finding some support in quieter trade. Announcement of planted area by PMB over lunch attracted strong buying on afternoon opening and prices jumped 13.00 before finding sellers.

Month	Yesterdays close £ per tonne	Previous close	Business done
Nov	128.00	126.00	129.00-117.50
Feb	158.50	158.00	—
Apr	212.50	204.50	217.00-194.00
May	222.50	213.00	222.00-210.00
Nov	93.70	90.00	—

Earlies—July 87.50, unchanged; Aug 90.00, +10.00; Sept 90.00, unchanged. Sales: Nil lots of 10 tonnes.

Sales: 2,069 (2,021) lots of 40 tonnes.

US MARKETS

NEWS that Egypt had cut the price of its leading oil blend by over $4 further undermined the shaky New York oil markets, reports Heinold Commodities. August crude oil approached the close nearly $2 down, having at one point slipped below the $11 level. In the oil products, heating oil traded down the 2c limit in the deferred deliveries, whilst the limitless August lost 2.3c at its lows of 33.20s. The re-emergence of speculative interest in the coffee market made for another lively session in New York. Monday's unsuccessful test of the important 180c support level encouraged bargain buying in London, which found good follow through in New York during the September delivery. Whilst fundamental news remained thin, traders considered the close above 187c as quite constructive and promising for a renewed assault on the important resistance at 190c.

NEW YORK

ALUMINIUM 40,000 lbs, cents/lb

	Close	High	Low	Prev
July	51.10	51.10	51.00	50.95
Aug	51.20	—	—	51.05
Sept	51.45	51.45	51.30	51.30
Dec	51.95	51.95	51.95	51.80
Jan	52.05	—	—	51.90
March	52.45	52.30	52.30	52.30
May	52.75	—	—	52.60
July	53.00	—	—	52.85
Sept	53.20	—	—	53.05
Dec	53.40	—	—	53.25

COCOA 10 tonnes, $/tonnes

	Close	High	Low	Prev
Sept	1986	1989	1970	2004
Dec	2022	2037	2008	2043
March	2058	2070	2048	2085
May	2081	2085	2068	2100
July	2095	2099	2085	2115
Sept	2116	2122	2116	2121
Dec	2154	—	—	2146

COFFEE "C" 37,500 lbs, cents/lb

	Close	High	Low	Prev
July	187.13	188.25	182.75	184.50
Sept	187.38	189.30	185.50	184.80
Dec	190.75	192.80	189.50	189.10
March	193.38	195.20	192.50	192.06
May	195.38	196.00	195.25	194.38
July	198.38	197.75	197.25	197.25
Sept	197.38	197.75	197.75	197.75
Dec	197.50	—	—	199.00

COPPER 25,000 lbs, cents/lb

	Close	High	Low	Prev
July	59.00	59.00	59.00	58.95
Aug	59.05	—	—	59.00
Sept	59.35	59.45	59.10	59.35
Dec	59.95	60.00	59.70	59.95
Jan	60.15	—	—	60.15
March	60.50	60.60	60.25	60.50
May	60.90	—	—	60.85
July	61.25	61.25	61.25	61.20
Sept	61.55	61.55	61.55	61.50
Dec	62.00	—	—	61.96

COTTON 50,000 lbs, cents/lb

	Close	High	Low	Prev
Oct	30.75	31.20	30.38	31.10
Dec	31.23	31.35	30.90	31.43
March	31.85	32.10	31.53	32.06
May	32.25	32.60	32.13	32.50
July	32.95	33.10	32.80	33.23
Oct	34.02	34.20	34.05	34.13
Dec	34.94	35.19	34.95	35.14

CRUDE OIL (LIGHT) 42,000 US gallons, $/barrel

	Close	High	Low	Prev
August	11.20	12.70	10.95	13.09
Sept	11.38	11.80	11.21	12.08
Oct	11.27	11.60	11.15	11.89
Nov	11.45	11.65	11.25	11.96
Dec	11.60	11.75	11.40	12.01
Jan	11.55	11.65	11.45	12.01
Feb	11.60	11.70	11.50	12.01
March	11.60	11.65	11.50	12.01
April	11.50	11.60	11.50	12.01
May	11.60	11.60	11.45	12.01

GOLD 100 troy oz, $/troy oz

	Close	High	Low	Prev
July	353.1	353.0	353.0	355.0
Aug	353.7	355.2	353.1	355.8
Sept	355.5	—	—	356.6
Oct	356.8	358.4	356.2	358.8
Dec	360.0	361.5	359.5	362.0
Feb	363.3	364.4	362.2	365.3
April	366.5	367.5	367.5	368.5
June	369.7	370.1	369.0	371.7
Aug	373.2	373.6	373.5	375.2
Oct	376.7	377.0	377.0	378.7
Dec	380.4	381.0	380.5	382.4
Feb	384.3	384.5	384.5	386.3
April	388.3	390.5	389.3	390.3

HEATING OIL 42,000 US gallons, cents/US gallons

	Close	High	Low	Prev
Aug	33.70	34.90	33.20	36.56
Sept	34.44	35.69	34.44	36.44
Oct	35.14	36.50	35.14	37.14
Nov	36.00	37.10	35.94	37.94
Dec	36.85	38.00	36.63	38.63
Jan	37.35	38.30	37.00	38.98
Feb	37.60	38.40	37.60	39.18
March	35.40	36.00	35.40	36.73
April	34.40	34.40	34.40	35.13
May	32.70	33.50	32.70	33.88

ORANGE JUICE 15,000 lb, cents/lb

	Close	High	Low	Prev
Sept	101.00	102.30	101.00	101.40
Nov	102.80	104.20	102.80	103.25
Jan	104.10	105.30	104.00	104.50
March	105.50	107.00	105.50	105.70
May	107.00	108.00	107.00	107.20
Sept	110.00	—	—	110.20

PLATINUM 50 troy oz, $/troy oz

	Close	High	Low	Prev
July	448.7	449.0	446.7	449.3
Oct	450.7	452.0	448.8	452.5
Jan	453.9	455.5	453.6	455.7
April	457.2	459.0	455.9	459.0
July	460.7	462.5	457.0	462.5

SILVER 5,000 troy oz, cents/troy oz

	Close	High	Low	Prev
July	500.3	504.0	499.0	506.3
August	501.7	—	—	507.7
Sept	504.0	508.0	502.0	509.9
Dec	512.5	516.5	511.0	518.5
Jan	515.4	—	—	519.4
March	520.9	525.8	520.8	526.9
May	526.5	531.0	527.8	530.4
July	532.1	533.0	533.0	538.3
Sept	538.0	—	—	542.2
Dec	547.3	549.0	546.0	551.5

SUGAR WORLD "11" 112,000 lb, cents/lb

	Close	High	Low	Prev
Sept	6.01	6.25	6.10	5.93
Oct	6.20	6.55	6.17	6.27
Jan	6.39	6.41	6.38	6.46
March	6.95	7.29	6.94	7.08
May	7.12	7.36	7.12	7.26
July	7.33	7.53	7.37	7.37
Sept	7.29	—	—	7.32
Oct	7.50	7.50	7.50	7.52

CHICAGO

LIVE CATTLE 40,000 lb, cents/lb

	Close	High	Low	Prev
August	58.35	58.42	57.52	57.87
Oct	58.90	59.00	58.22	58.77
Dec	58.55	58.80	58.15	58.82
Feb	57.10	57.27	56.20	57.77
April	58.00	58.15	57.72	58.10
June	58.20	58.25	57.98	58.15

LIVE HOGS 30,000 lb, cents/lb

	Close	High	Low	Prev
August	57.87	58.30	56.75	58.25
Oct	53.65	54.50	52.85	54.07
Dec	52.57	53.00	51.35	52.95
Feb	50.45	50.87	49.65	50.42
April	45.05	45.47	44.80	45.15
June	46.40	46.42	46.00	46.35
July	46.22	46.30	46.00	46.37
August	43.85	43.85	43.85	43.85

PORK BELLIES 38,000 lb, cents/lb

	Close	High	Low	Prev
July	84.57	86.90	84.57	86.57
August	82.70	84.90	82.70	84.70
Feb	76.57	78.25	75.85	77.25
March	76.10	78.35	75.00	76.60
May	75.35	75.35	73.60	75.42
July	70.90	71.50	70.25	69.90

WEEKLY METALS

All prices as supplied by Metal Bulletin.

ANTIMONY: European free market, 99.6 per cent, $ per tonne, in warehouse, 2,320-2,390.

BISMUTH: European free market, min 99.99 per cent, $ per pound, tonne lots in warehouse, 2.17-2.38.

CADMIUM: European free market, min 99.95 per cent, $ per pound, in warehouse, ingots, 0.92-0.97, sticks, 0.93-0.96.

COBALT: European free market, 99.5 per cent, $ per pound, in warehouse, 5.90-6.20.

MERCURY: European free market, min 99.99 per cent, $ per flask, in warehouse, 190-205.

MOLYBDENUM: European free market, drummed molybdic oxide, $ per pound Mo, in warehouse, 3.02-3.07.

SELENIUM: European free market, min 99.5 per cent, $ per pound, in warehouse, 4.00-4.30.

TUNGSTEN ORE: European free market, standard min 65 per cent, $ per tonne unit WO_3, cif, 44-53.

VANADIUM: European free market, min 98 per cent V_2O_5, other sources, $ per pound V_2O_5, cif, 2.50-2.55.

URANIUM: Nuexco exchange value, $ per pound U_3O_8, 17.00.

PLATINUM (tonnes)

Supply	1987*	1986*	1985†
South Africa	72	70	72.2
Canada	5	5	4.7
Soviet sales	9	8	7.1
Others	1.5	1.5	1.2
Total	87.5	84.5	85.3
Demand			
Japan	39	38	38.3
N. America	30	29	32.8
W. Europe	14	13	11.8
Deliveries to Comecon and China	0.9	0.9	8.9
Others	6	6	5.3
Total	89.9	86.9	88.3
Net deficit	2.4	2.9	3.0

* Estimated. † Provisional.

OIL

Prices fell heavily for both 15-day Brent and WTI. August was barely talked. September Brent and Dubai were actively traded though prices remained highly volatile throughout the day. Nymex WTI opened 49c down falling a further 28c by 1.30 pm EDT. In the petroleum products market naptha and gasoil prices fell sharply under the influence of weaker futures. Heavy fuel was stable to weak in quiet trade. Petroleum Argus, London.

	Latest	Change + or —
CRUDE OIL—FOB ($ per barrel)—August		
Arab Light	—	—
Arab Heavy	—	—
Dubai	7.60-7.70	-0.05
Brent Blend	9.35-9.55	-0.325
W.T.I. (1pm est)	11.40-11.50	-1.90
Forcados (Nigeria)	—	—
Urals (cif NWE)	—	—
PRODUCTS—North West Europe Prompt delivery cif ($ per tonne)		
Premium gasoline	123-127	+0.5
Gas Oil	94-96	-4.0
Heavy fuel oil	46-48	-0.5
Naphtha	89-91	-5.0

Petroleum Argus estimates.

GAS OIL FUTURES

Month	Yest'rday's Close US $ per tonne	+ or —	Business Done
Aug	98.00	-8.00	103.50-98.00
Sep	101.00	-7.25	107.00-01.00
Oct	103.25	-6.25	107.00-03.25
Nov	105.50	-6.00	109.50-05.50
Dec	108.00	-6.50	110.25-08.00
Jan	110.00	—	110.00

Turnover: 2,715 (1,886) lots of 100 tonnes.

RUBBER

PHYSICALS—The London market opened about unchanged, drifted lower throughout the day and closed quiet and slightly easier, reports Lewis and Peat. Closing prices (buyers): Spot 60.25p (same); Aug 59.25p (same); Sept 59.25p (same). The Kuala Lumpur fob price (Malaysian cents per kg): RSS No. 1 221.0 (same) and SMR 20 195.5 (194.0).

FUTURES—Index 586, Aug 590-600, Sept 588-595, Oct/Dec 588-592, Jan-March 597-602, April-June 608-615, July-Sept 610-617. Sales: NIL.

SUGAR

Reports that a large quantity of Brazilian shipments had been rolled into 1987 helped the market to continue the rally, reports C Czarnikow.

No. 6 Contract	Yest'rdy's close	Previous close	Business done
	$ per tonne F.O.B.		
Aug	150.0-155.9	150.8-151.8	157.0-151.0
Oct	159.2-140.0	138.8-140.8	148.4-138.8
Dec	—	—	—
Mar	156.8-156.8	156.4-157.4	159.8-154.8
May	159.4-161.0	160.8-162.8	—
Aug	166.4-166.4	165.8-166.8	—
Oct	167.4-168.4	168.4-170.0	—

Sales: 4,552 (1,822) lots of 50 tonnes.

LONDON DAILY PRICE—Raw sugar $141.50 (£94.50), up $3.50 (up £2.50) a tonne for Aug-Sept delivery. White sugar $185.50, up $3.50.

Tate and Lyle delivery price for granulated basis sugar was £196.00 (£196.0) a tonne for export.

PARIS—(FFr per tonne): Oct 1307-1309, Dec 1315-1330, March 1350-1355, May 1385-1395, Aug 1410-1430, Oct 1470-1490. Sales: 9.

International Sugar Agreement—(US cents per pound fob and stowed Caribbean ports). Prices for July 22: Daily price 5.55 (5.31); 15-day average 5.32 (5.34).

FREIGHT FUTURES

	Close	High/Low	Prev.
Dry Cargo			
July	564/565	564	565/567
Oct.	641/643	641/637	648/644
Jan.	675/676	674	676/678
April	728/736	—	726/735
July	685/690	685	680/700
Oct.	755/780	—	745/760
Jan.	770/800	—	770/800
Apr.	900	—	825/900
BFI.	570.5	—	578.0

Turnover: 35 (51).

	Close	High/Low	Prev.
Tankers			
July	980/80	960	940/980
Aug	1005/25	1011/05	970/100
Sep	975/1025		1000
Dec	—	—	—
Mar	—	—	—
June	—	—	—
BTI	1009.5	—	991

Turnover: 32 (16).

JUTE

JUTE — July/Aug c and f Dundee: BTC $350, BWC $360, BTD $310, BWD $310; c and f Antwerp: BTC $330, BWC $330, BWD $300, BTD $300.

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

GNP helps dollar recover

Shortcovering developed during yesterday afternoon, sending the dollar to near its best level of the day. News of a 1.1 per cent rise in US GNP in the second quarter was in itself not very exciting but a fairly sharp upward revision to the previous quarter provoked a cautionary covering of short positions. Inflation at 2.1 per cent was much in line with expectations although poor export figures led to renewed speculation about the need for a lower dollar.

Against this background the dollar enjoyed a temporary respite but retained a bearish undertone. *While the market* analyses the figures, an indication on *official* thinking should be provided today when Mr Paul Volcker, chairman of the US Federal Reserve Board, makes his half-yearly testimony to Congress. For the time being therefore there was little incentive to take out fresh positions.

The dollar closed at DM 2.1370 from DM 2.1195 and Y156.75 compared with Y155.0. Against the Swiss franc it rose to SFr 1.7270 from SFr 1.7115 and FFr 6.8975 from FFr 6.8535. On Bank of England figures, the dollar's exchange rate index rose from 111.9 to 112.3.

STERLING — Trading range against the dollar in 1986 is 1.5555 to 1.3770. *June average* 1.5069. Exchange rate index 72.8 after opening at 72.5 and compared with 73.0 on Monday. The six months ago figure was 75.3.

Sterling recovered from the day's lows as it followed the fortunes of the dollar. The pound remained vulnerable to lower oil prices with North Sea Brent quoted below $9 a barrel at one point. The pound closed at $1.4905 down from $1.4995 but rose to DM 3.1850 from DM 3.1775 and Y233.5 compared with Y232.50. Elsewhere it finished at SFr 2.5720 from SFr 2.5675 and FFr 10.28 from FFr 10.2750.

D-MARK — Trading range against the dollar in 1986 is 2.4710 to 2.1195. June average 2.3330. Exchange rate index 137.0 against 132.4 six months ago.

The D-Mark lost ground against the dollar in Frankfurt as the US unit recovered on shortcovering. This resulted from US *second quarter GNP figures* released yesterday afternoon which showed a rise of 1.1 per cent and an upward revision to the previous quarter. However dealers were still bearish about the dollar but suggested that apart from an adjustment of positions, there was also some reluctance to run too short ahead of today's speech by Mr Paul Volcker. There was also some concern that central banks may intervene to support the dollar. The latter closed at DM 2.1360 up from DM 2.1315. Earlier in the day it had been fixed at DM 2.1253 from DM 2.1299 on Monday.

JAPANESE YEN — Trading range against the dollar in 1986 is 202.70 to 155.0. June average 167.58. Exchange rate index 217.1 against 176.7 six months ago.

The yen was confined to a narrow range against the dollar in Tokyo yesterday. Business levels were relatively low as dealers marked time ahead of second quarter US GNP figures. Considerable bearishness has already been written into the fears that a slightly more acceptable figure or renewed central bank intervention would increase dollar's value but there were still dollar demand and squeeze out short positions. The dollar closed at Y155.30 compared with Y155.00 in New York and Y155.50 in *Tokyo on Monday*.

£ IN NEW YORK

July 22	Latest	Prev. close
£ Spot	$1.4845-1.4855	$1.4950-1.4960
1 month	0.47-0.44pm	0.49-0.48pm
3 months	1.27-1.23pm	1.30-1.27pm
12 months	4.60-4.50pm	4.75-4.65pm

Forward premiums and discounts apply to the US dollar

POUND SPOT—FORWARD AGAINST POUND

July 22	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4845-1.4990	1.4900-1.4910	0.47-0.44c pm	3.66	1.30-1.25pm	3.42
Canada	2.0553-2.0702	2.0600-2.0629	0.34-0.25c pm	1.72	0.87-0.72pm	1.54
Nethlnd.	3.57½-3.59½	3.58½-3.59½	1½-1¼c pm	4.18	4-3¾pm	4.25
Belgium	65.39-65.75	65.50-65.60	20-14c pm	3.11	53-44pm	2.96
Denmark	11.89½-11.96	11.95-11.96	1½-¾ore pm	1.13	1⅞-1¼pm	0.50
Ireland	1.0650-1.0715	1.0700-1.0710	0.05pm-0.05p dis	-0.00	0.05-0.20d	-0.47
W. Ger.	3.1690-3.1859	3.1845-3.1855	1½-1¼pf pm	5.65	4¼-4⅛pm	5.34
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc [illegible]. Six-month forward dollar [illegible]. 12-month [illegible].

DOLLAR SPOT—FORWARD AGAINST DOLLAR

July 22	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nethlnd.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Ger.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc [illegible].

CURRENCY MOVEMENTS

July 22	Bank of England Index	Morgan Guaranty Change %
Sterling	72.8	−19.1
U.S. dollar	112.3	+5.6
Canadian dollar	76.0	−12.4
Austrian schilling	128.8	+7.5
Belgian franc	95.6	−7.2
Danish Kroner	86.6	−0.7
Deutsche mark	137.0	+16.1
Swiss franc	[illegible]	[illegible]
Guilder	[illegible]	[illegible]
French franc	[illegible]	[illegible]
Lira	[illegible]	[illegible]
Yen	217.1	+16.3

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

CURRENCY RATES

July 22	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	[illegible]	[illegible]
U.S. dollar	6	[illegible]	[illegible]
Canadian $	[illegible]	[illegible]	[illegible]
Austria Sch	[illegible]	[illegible]	[illegible]
Belgian Fr	[illegible]	[illegible]	[illegible]
Danish Kr	[illegible]	[illegible]	[illegible]
D'mark	[illegible]	[illegible]	[illegible]
Guilder	[illegible]	[illegible]	[illegible]
French Fr	[illegible]	[illegible]	[illegible]
Lira	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]
Norway Kr	[illegible]	[illegible]	[illegible]
Span's Pta	[illegible]	[illegible]	[illegible]
Swedish Kr	[illegible]	[illegible]	[illegible]
Swiss Fr	[illegible]	[illegible]	[illegible]
Greek Drch	[illegible]	[illegible]	[illegible]
Irish Punt	[illegible]	[illegible]	[illegible]

* CS/SDR rate for July 21: [illegible].

EXCHANGE CROSS RATES

July 22	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$	[illegible]	1.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DM	[illegible]	[illegible]	1.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN	[illegible]	[illegible]	[illegible]	1000.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
F Fr.	[illegible]	[illegible]	[illegible]	[illegible]	10.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S Fr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.	[illegible]	[illegible]	[illegible]	[illegible]
H Fl.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.	[illegible]	[illegible]	[illegible]
Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1000.	[illegible]	[illegible]
C $	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.	[illegible]
B Fr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belg Fr per 100.

OTHER CURRENCIES

July 22	£	$
Arg'tina	[illegible]	[illegible]
Aus'alia	[illegible]	[illegible]
Brazil	[illegible]	[illegible]
Finland	[illegible]	[illegible]
Greece	[illegible]	[illegible]
Hong Kong	[illegible]	[illegible]
Iran	[illegible]	[illegible]
Kuwait	[illegible]	[illegible]
Lux'bourg	[illegible]	[illegible]
Malaysia	[illegible]	[illegible]
N Z'land	[illegible]	[illegible]
Saudi Ar.	[illegible]	[illegible]
Sin'pore	[illegible]	[illegible]
S Af (Cm)	[illegible]	[illegible]
S Af (Fn)	[illegible]	[illegible]
U.A.E.	[illegible]	[illegible]

* Selling rate.

EURO-CURRENCY INTEREST RATES

July 22	Short term	7 Days notice	1 Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
U.S. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sw. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutschmrk	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B.Fr.(Fin)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B.Fr.(Con)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $ (Sing)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long-term Eurodollars: two years 6⅞-7⅛ per cent; three years 7⅛-7⅜ per cent; four years 7⅜-7⅝ per cent; five years 7⅝-8⅛ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu July 22	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German D-mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Irish Punt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

Long-term Eurodollars: two years 6⅞-7⅛ per cent; three years 7⅛-7⅜ per cent; four years 7⅜-7⅝ per cent; five years 7⅝-8⅛ per cent nominal. Short-term rates are call for US dollars and Japanese yen; others two days' notice.

STERLING INDEX

	July 22	Previous
8.30 am	72.5	72.6
9.00 am	72.5	72.7
10.00 am	72.5	72.7
11.00 am	72.6	72.7
Noon	72.6	72.8
1.00 pm	72.6	72.8
2.00 pm	72.6	72.9
3.00 pm	72.7	73.1
4.00 pm	72.8	73.0

FINANCIAL FUTURES

Gilts up, bonds fall

The main feature of the London International Financial Futures Exchange yesterday was the strength of the long term gilt futures opened weak at 118-27, and traded up to around 119-10 immediate before publication of the second quarter US gross national product figure. The price continued to advance to a peak of 119-29, before closing at 119-28, compared with 119-02. The market seemed relaxed about the prospects for UK interest rates, but the main factor behind the contract's strength was a squeeze on bear positions engineered by the stockjobbers.

September US Treasury bonds began at 99-22 and drifted ahead of the GNP announcement. Initial reaction to the figures was bullish, but the rise of 1.1 per cent in second quarter growth was in line with most expectations, and the upward revision to 3.8 per cent from 2.9 per cent in first quarter growth, led to selling.

Stop loss selling was triggered at levels under 99-04 taking the contract down to a low of 98-14, before recovering a little on shortcovering. Expectations that US and UK interest rates will not change in the near future kept Eurodollar and short sterling futures steady.

LIFFE LONG GILT FUTURES OPTIONS

Strike price	Calls—Last Sept	Dec	Mar	June	Puts—Last Sept	Dec	Mar	June
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume total: Calls 391, Puts 0. Previous day's open int: Calls 3,196, Puts 4,839

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike price	Calls—Last Sept	Dec	Mar	June	Puts—Last Sept	Dec	Mar	June
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume total: Calls [illegible], Puts [illegible]. Previous day's open int: Calls 3,784, Puts 782

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike price	Calls—Last Aug	Sept	Oct	Dec	Puts—Last Aug	Sept	Oct	Dec
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume total: Calls 602, Puts 544. Previous day's open int: Calls 11,608, Puts 3,986

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike price	Calls—Last Aug	Sept	Oct	Dec	Puts—Last Aug	Sept	Oct	Dec
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume total: Calls 112, Puts 86. Previous day's open int: Calls 1,639, Puts 896

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

Strike price	Calls—Last Aug	Sept	Dec	Mar	Puts—Last Aug	Sept	Dec	Mar
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Previous day's open int: Calls 30,599, Puts 31,911. Previous day's volume: Calls 221, Puts 78

LIFFE—EURODOLLAR OPTIONS
$1m points of 100%

Strike price	Calls—Last Sept	Dec	Mar	June	Puts—Last Sept	Dec	Mar	June
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Previous day's open int: Calls 5, Puts 5. Estimated volume: Calls 1,292, Puts 1,333

CHICAGO

US TREASURY BONDS (CBT)
8% $100,000 32nds of 100%

	Latest	High	Low	Prev
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
March	—	—	—	[illegible]
June	—	—	—	[illegible]
Sept	—	—	—	[illegible]
Dec	—	—	—	[illegible]
March	—	—	—	[illegible]

US TREASURY BILLS (IMM)
$1m points of 100%

	Latest	High	Low	Prev
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]

CERT. DEPOSIT (IMM)
$1m points of 100%

	Latest	High	Low	Prev
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]

THREE-MONTH EURODOLLAR (IMM)
$1m points of 100%

	Latest	High	Low	Prev
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]

LONDON

20-YEAR 12% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev
Sept	119-28	119-29	118-27	119-02
Dec	[illegible]	—	—	[illegible]
March	[illegible]	—	—	[illegible]
June	[illegible]	—	—	[illegible]

Estimated volume 9,257 (7,901). Previous day's open int 14,477 (14,442). Basis quote (clean cash price of 13¾% Treasury 2004-08 less equivalent price of near futures contract) [illegible] (32nds)

10% NOTIONAL SHORT GILT
£100,000 64ths of 100%

	Close	High	Low	Prev
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	—	—	[illegible]
March	[illegible]	—	—	[illegible]

Estimated volume 194 (189). Previous day's open int 378 (368)

THREE-MONTH STERLING
£500,000 points of 100%

	Close	High	Low	Prev
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	—	—	[illegible]

Estimated volume 2,881 (2,817). Previous day's open int 14,337 (14,402)

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev
Sept	158.25	159.00	156.80	157.70
Dec	161.15	161.20	161.15	160.70
March	163.65	—	—	163.20

Estimated volume 495 (798). Previous day's open int 2,479 (2,228)

THREE-MONTH EURODOLLAR
$1m points of 100%

	Close	High	Low	Prev
Sept	[illegible]	[illegible]	[illegible]	93.65
Dec	[illegible]	[illegible]	[illegible]	93.66
March	[illegible]	[illegible]	[illegible]	93.50
June	[illegible]	[illegible]	[illegible]	93.26
Sept	[illegible]	[illegible]	[illegible]	92.97
Dec	[illegible]	—	—	92.70
March	—	—	—	—

Estimated volume 4,756 (2,444). Previous day's open int 17,469 (17,533)

US TREASURY BONDS
8% $100,000 32nds of 100%

	Close	High	Low	Prev
Sept	[illegible]	[illegible]	[illegible]	99-18
Dec	[illegible]	[illegible]	[illegible]	98-28

Estimated volume 6,725 (3,789). Previous day's open int 7,822 (7,769)

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.4905	1.4860	1.4775	1.4653	1.4448

IMM—STERLING Se per £

	Close	High	Low	Prev
Sept	[illegible]	[illegible]	[illegible]	1.4885
Dec	—	1.4790	1.4790	1.4775
March	—	—	—	1.4645

LIFFE—STERLING
£25,000 $s per £

	Close	High	Low	Prev
Sept	1.4725	1.4912	1.4833	1.4925
Dec	1.4820	1.4790	1.4820	1.4900
March	—	—	—	1.4895

Estimated volume 211 (50). Previous day's open int 1,441 (1,416)

MONEY MARKETS

UK rates steady in quiet trading

The London money market remained in the doldrums yesterday, with interest rates very little changed. Three-month interbank was steady at 9 15/16-10 1/16 per cent, and periods through to one year were quoted at the same level. The most notable feature of the market so far this week has been the willingness of discount houses to sell longer dated bills *to the Bank of* England. In the last two weeks the market's buying rate for three-month eligible bills has moved up from 9½ *per cent to* 9 11/16 per cent, as hopes have faded of an early cut in clearing bank base rates. As the market has moved into line with the current official intervention rates discount houses have become more willing to sell longer dated paper. Houses prefer to hold longer dated band 4 (64-91 day) bills when it is expected interest *rates will fall*, but become anxious to sell at times of nervousness about higher rates.

The Bank of England initially forecast a money market shortage of £300m, but revised this to £350m in the afternoon. *Total help of £366m* was provided.

Before lunch the authorities bought £280m bills outright, by way of £110m bank bills in band 3 at 9⅝ per cent, and £170m bank bills in band 4 at 9 11/16 per cent.

In the afternoon another £86m bank bills were purchased in band 3 at 9⅝ per cent.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £181m, with the unwinding of repurchase agreements absorbing £846m, and bank balances below target another £20m. These were partly offset by Exchequer transactions adding £745m to liquidity and a fall in the note circulation of £25m.

In Frankfurt call money was slightly firmer at 4.60 per cent, compared with 4.55 per cent. At yesterday's tender for a new 28-day securities repurchase agreement the Bundesbank more than replaced the DM 3bn flowing out of the money market today, as an earlier agreement expires. Banks bid for a total of DM 19.7bn, and the central bank accepted bids of DM 4.9bn, at a rate of 4.35 per cent.

UK clearing bank base lending rate, 10 per cent since May 22

FT LONDON INTERBANK FIXING

(11.00 a.m. July 22)

Three months US dollars		Six months US dollars	
bid 6 7/16	Offer 6 9/16	bid 6 7/16	Offer 6 9/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

NEW YORK RATES

(Lunchtime)

Prime rate	8
Broker loan rate	7½
Fed funds	6⅞
Fed funds at intervention	6⅝

Treasury Bills & Bonds

One month	5.42
Two month	5.65
Three month	5.88
Six month	6.01
One year	6.15
Two year	6.58
Three year	6.71
Four year	6.83
Five year	6.91
Seven year	7.07
10 year	7.18
30 year	7.24

LONDON MONEY RATES

July 22	Over night	7 days notice	Month	Three Months	Six Months	One Year
Interbank	5-9	9⅛-9¾	9⅞-10	[illegible]	[illegible]	[illegible]
Sterling CDs	—	—	9 15/16-9 13/16	[illegible]	[illegible]	[illegible]
Local Authority Depos	9-9⅝	9⅝	9⅝-9⅞	[illegible]	[illegible]	[illegible]
Local Author'y Bonds	—	—	10⅛	[illegible]	[illegible]	[illegible]
Discount Mkt Depos.	5-8¼	9⅛-9⅝	9¾	[illegible]	[illegible]	[illegible]
Company Depos.	8¾	9¾	10	10	[illegible]	[illegible]
Finance House Depos	—	—	10	10	[illegible]	[illegible]
Treasury Bills (Buy)	—	—	9½	[illegible]	[illegible]	[illegible]
Bank Bills (Buy)	—	—	9 11/16	[illegible]	[illegible]	[illegible]
Fine Trade Bills (Buy)	—	—	10 1/16	[illegible]	[illegible]	[illegible]
Dollar CDs	—	—	6.45-6.50	[illegible]	[illegible]	[illegible]
SDR Linked Depos.	—	—	6⅛-6⅜	[illegible]	[illegible]	[illegible]
ECU Depos.	—	—	7 7/16-7 5/16	[illegible]	[illegible]	[illegible]

Treasury Bills (sell): one-month 9 11/32 per cent; three months [illegible] per cent. Bank Bills (sell): one month 9⅝ per cent; three months [illegible] per cent. Treasury Bills: Average tender rate at discount 9.5828 per cent. ECGD Fixed Finance Scheme IV reference date June 4 to July 1 (inclusive): [illegible] per cent. *Local Authority and Finance Houses seven days' notice, others seven days' fixed.* Finance Houses Base Rate 10 per cent from July 1 1986. Bank Deposit Rates for sums at seven days' notice 4.35-4.375 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 10 per cent; one-three months 10 per cent; three-six months 10 per cent; six-nine months 10 per cent; nine-12 months 10 per cent. Under £100,000 10 per cent from July 16. Deposits held under Series 5 10 per cent. Deposits withdrawn for cash 6½ per cent.

MONEY RATES

July 22	Ov'r-nig't	One Month	Two Months	Three Months	Six Months	Lombard Int'v'tn
Frankfurt	4.55-4.65	4.55-4.65	4.55-4.65	4.55-4.65	4.55-4.70	5.5
Paris	7⅛	7⅛-7¼	7⅛-7¼	7⅛-7¼	7⅛-7¼	7
Zurich	⅞-1⅛	4 11/16-4 13/16	—	4¾-7⅞	—	—
Amsterdam	6 1/16-6 3/16	5¼-5⅞	—	5 9/16-5 11/16	—	—
Tokyo	4.71875	4.65625	—	4.71875	—	—
Milan	11¾-12¼	11⅛-11⅞	—	11¾-12¼	—	—
Brussels	[illegible]	[illegible]	—	[illegible]	—	—
Dublin	—	[illegible]	[illegible]	[illegible]	[illegible]	—

Legal Notices

RAINBOW BRIDGE LIMITED

NOTICE IS HEREBY GIVEN pursuant to Section 588 of the Companies Act, 1985, that a Meeting of the creditors of the above named Company will be held at the offices of LEONARD CURTIS & CO., situated at 30 EASTBOURNE TERRACE (2ND FLOOR), LONDON W2 6LF on Friday the 8th day of August 1986 at 12.00 o'clock midday, for the purposes provided for in Sections 589 and 590.

Dated the 15th day of July, 1986.

R. DANZIG, Director

BORDKIRK LIMITED

NOTICE IS HEREBY GIVEN pursuant to Section 588 of the Companies Act, 1985, that a Meeting of the creditors of the above named Company will be held at the offices of LEONARD CURTIS & CO., situated at 30 EASTBOURNE TERRACE (2ND FLOOR), LONDON W2 6LF on Wednesday the 30th day of July 1986 at 12.00 o'clock midday, for the purposes provided for in Sections 589 and 590.

Dated the 14th day of July, 1986.

M. LONERGAN, Director

LONDON SHARE SERVICE

BRITISH FUNDS

1986 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
		"Shorts" (Lives up to Five Years)				
102⅜	100⅝	Exch. 14pc 1986	101	.....	13.88	9.79
98⅝	94⅞	Exch. 2½pc 1986	98½	.....	2.53	7.08
102[illegible]	100¼	Exch. 13¼pc 1987	102[illegible]	.....	13.05	9.87
100⅞	97[illegible]	Treas 10¼pcCv '87	100[illegible]	.....	10.23	9.87
97[illegible]	92[illegible]	Exch 2½pc 1987	97[illegible]	.....	2.56	6.90
101⅜	97½	Exch. 10½pc 1987	100¼	.....	10.46	9.85
98⅝	93⅝	Funding 6½pc '85-87‡‡	98[illegible]	+[illegible]	6.62	8.92
101¼	96[illegible]	Treas. 10pc 1987	100⅛	.....	9.99	9.80
97[illegible]	90⅞	Treas 3pc 1987	96[illegible]	-[illegible]	3.12	7.11
104½	99⅝	Treas. 12pc 1987	102[illegible]	+[illegible]	11.71	9.83
99⅛	92[illegible]	Treas 7¾pc 1985-88‡‡	97[illegible]	-[illegible]	7.99	9.27
104	96⅝	Exch 10½pc '88	101[illegible]	.....	10.39	9.80
102⅞	95⅛	Treas 9¾pc Cv '88	99⅞	+[illegible]	9.75	9.80
94⅛	86⅛	Transport 3pc '78-88	92[illegible]	-[illegible]	3.23	6.95
102½	93[illegible]	Treas. 9½pc '88	99[illegible]	+[illegible]	9.54	9.75
107[illegible]	98[illegible]	Treas. 11½pc 1989	103[illegible]	.....	11.07	9.74
103⅛	93⅛	Treas 9½pc Cnv. '89	99[illegible]	+[illegible]	9.54	9.66
92⅛	82[illegible]	Treas 3pc 1989	89⅝	-[illegible]	3.35	7.10
105[illegible]	95[illegible]	Treas 10½pc 1989	101[illegible]	.....	10.30	9.73
104[illegible]	94⅛	Exch 10pc 1989	100[illegible]	+⅛	9.93	9.72
107[illegible]	97	Exch 11pc 1989	103[illegible]	.....	10.64	9.68
93[illegible]	84½	Treas 5pc 1986-89	91[illegible]	-[illegible]	5.47	8.08
110[illegible]	94⅞	Exch 10¼pcCv '89	105[illegible]	.....	9.73	8.35
114[illegible]	103[illegible]	Treas 13pc 1990‡‡	109[illegible]	.....	11.89	9.56
108⅛	97⅛	Exch 11pc 1990‡‡	104[illegible]	.....	10.57	9.62
113⅛	101[illegible]	Exch. 12½pc 1990	108[illegible]	+[illegible]	11.51	9.65
89⅝	79⅝	Treas. 3pc 1990	86¼	.....	3.48	7.20
100[illegible]	89⅝	Treas 8¼pc 1987-90‡‡	97¼	.....	8.48	9.09
106[illegible]	93	Treas. 10pcCv 1990	101⅛	.....	9.86	9.58
86[illegible]	76½	Exch 2½pc 1990	83⅛	.....	2.99	6.97
112[illegible]	99[illegible]	Treas 11¾pc 1991	107[illegible]	.....	10.91	9.58
94¼	83[illegible]	Funding 5¾pc '87-91‡‡	91½	-⅛	6.27	7.88
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Cont.

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont.

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC.

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

هكذا من الأصل

INDUSTRIALS—Continued

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

INSURANCES

LEISURE

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- "Tap Stock".
- Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- Figures or report awaited.
- Not officially UK listed; dealings permitted under Rule 535(4)(a).
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- Dealt in under Rule 535(3).
- Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- Merger bid or reorganisation in progress.
- Not comparable.
- Same interim: reduced final and/or reduced earnings indicated.
- Forecast dividend; cover on earnings updated by latest interim statement.
- Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- No par value.

B.Fr. Belgian Francs. Fr. French Francs. ‡‡ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Figures based on prospectus or official estimates for 1984. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	60	.....	Fin. 13% 97/02	£117	.....
Craig & Rose £1	£11xd	.....	Arnotts	330	.....
Finlay Pkg. 5p	43½	.....	CPI Hldgs	43	.....
Holt (Jos) 25p	805	-15	Carroll Inds.	150	-4
IoM Stm. £1	96	.....	Dublin Gas	53	.....
			Hall (R. & H.)	75	.....
IRISH			Heiton Hldgs.	31	.....
Fund 11¼% 1988	£101½	.....	Irish Ropes	96xd	.....
Nat. 9¾% 84/89	£98¼	.....	Unidare	204	+1

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(International Edition Page 27)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £875 per annum for each security.

LONDON STOCK EXCHANGE

Account Dealing Dates

Option *First Dealings	Declarations	Last Dealings	Account Day
July 14	July 24	July 25	Aug 4
July 28	Aug 7	Aug 8	Aug 18
Aug 11	Aug 28	Aug 29	Sept 8

* * New-time * dealings may take place from 9.30 am two business days earlier.

Interest fades after bright opening and equities lose further ground

Investment confidence failed to revive in London equity markets yesterday. However, underlying conditions were much steadier after the fall in leading shares which left the Financial Times Ordinary share index down just over 40 points over the previous two trading sessions.

Political and currency fears remained in the background and a small technical rally in blue chip industrials soon petered out. Even a firm opening lead from Wall Street yesterday following a GNP figure in line with expectations failed to generate any worthwhile interest in domestic equities.

The opening revival in the leaders was reflected in a gain of 4.2 in the FT-30 share index at the 10 am calculation, but with buyers continuing to show a marked reluctance, the small gains at the outset were gradually whittled away and the index settled with a fall of 1.6 on balance at 1,274.7. The more broadly based FT-SE 100 share index closed 1.0 off at 1,559.2 after having recorded an earlier rise of 6.1.

The volume of business in equities was extremely light throughout the session, but more stable conditions encouraged pockets of speculative activity. The late dealings were coloured by the announcement of bids for both Hat Group and Brengreen from BET. Unigate also appeared on the scene with an agreed offer for Oldacre.

Dealings are expected to start today in the heavily over-subscribed TV-am flotation at a premium of around 10 over the offer for sale price of 130p per share.

Government Securities fared little better in the way of business activity, but managed a small rally. The initial tone in this sector was a little uncertain. However, prices at the longer end of the market gradually picked up from slightly lower opening levels to settle with gains of ¼ on balance. Final movements in the shorts showed fractional movements either way.

Lloyd's Broker Stewart-Wrightson returned to prominence yesterday when revived rumours of an imminent bid from Citicorp of the US helped the shares recover from an initial dull level of 436p to 467p before closing 23 up on balance at 462p. Elsewhere, Composites plotted a narrow course in thin trading. Royals relinquished 5 at 839p, but Commercial Union finished a penny dearer at 312p, after 309p; the latter's interim figures are scheduled for August 13.

Clearing banks continued to drift lower on sporadic offerings and lack of support. Lloyds, scheduled to start the interim dividend season on Friday, lost 8 more at 398p, while Midland gave up 9 at 539p. Standard Chartered, meanwhile, rallied 4 more at 757p, but Union Discount lost 10 to 685p following the decision not to become a gilt-edged securities market-maker. Merchant banks remained on offer with Hambros closing 6 easier at 237p and Mercury International 5 lower at 655p.

Breweries took up a firmer stance reflecting a revival of investment support. Allied-Lyons put on 5 to 325p, while Whitbread A, awaiting news from the annual meeting, touched 270p before settling 3 up on balance at 265p. Cider makers H. P. Bulmer, depressed last week followed the uninspiring preliminary results, attracted late interest and rallied 5 to 154p.

The Building sector provided one of the day's bright features in HAT Group; the shares, dull last week following disappointing results, moved forward to 100p on speculative buying before racing ahead on news of a share-exchange offer from BET currently worth approximately 124½p per share to close a net 30 up at 124p. Elsewhere, Raine Industries attracted fresh demand on merger hopes and added 3 to 84p. The leaders continued to trade quietly and once again displayed an easier bias. Costain softened a couple of pence to 534p following the placing of the rump of the rights issue. BPB Industries shed 3 to 510p and RMC lost 4 to 688p. Tarmac slipped 4 to 456p, a two-day fall of 18, while Blue Circle softened a couple of pence to 600p. Rugby Portland Cement gave up 2 to 199p and Marley a penny at 116p.

ICI were a steady market awaiting tomorrow's half-year figures and closed 5 dearer at 991p. Elsewhere in the Chemical sector, Evode, at 124p, recovered a couple of pence of the previous day's fall of 7, but Coalite softened a penny more to 299p and Foseco slipped 2 to 232p.

Stores subdued

Further consideration of the record retail sales underpinned leading Retailers. Quotations generally held around the overnight positions, although Dixons, which revealed pleasing full-year figures last week, eased a few pence to 330p. Marks and Spencer touched 200p before settling a couple of pence to the good at 199p. Among otherwise featureless secondary counters, Paul Michael Leisurewear, currently in receipt of an offer from [illegible]

Interest in Electricals centred upon selected secondary issues. Buying on recovery hopes in the wake of disappointing annual results helped CASE jump 15 to 79p, while Arlen reflected a favourable Press assessment of the preliminary figures with an improvement of 4 at 93p. Logica moved up 15 to 215p, while old takeover favourite United Scientific rose 6 to 158p following Press comment. Goring Kerr, on the other hand, fell 30 to 370p on news of the interim profits contraction and Electronic Machine, still reflecting the recent poor first-half figures, declined 6 further to 65p. Cable and Wireless lost 12 at 663p among the quietly dull leaders.

Plessey held at 216p awaiting the authorities decision on the GEC bid; GEC softened a couple of pence at 188p.

GKN, with interim figures scheduled for early next month, closed 4 easier at 333p, but other Engineering leaders rarely strayed from overnight levels. Elsewhere, Manganese Bronze cheapened 3 to 67p on the threat from Birmingham-based coach-makers, Metro Cammell Weymann, to its monopoly of black taxi-cab manufacturing. Blackwood Hodge cheapened 3½ more for a two-day fall of 8 at 40p on further consideration of the proposed £12.8m rights issue. Qualcast dipped 4 at 130p and Woodhouse Rixson gave up 4 at 60p.

ASDA-MFI gave fresh ground following comment on the annual results and settled 4 lower at 138p, a two-day fall of 6. Other Food Retailers also closed easier on balance, an initial rally having petered out soon after the opening. J. Sainsbury settled a couple of pence cheaper at 372p and Tesco finished a penny off at 362p. Recent takeover favourite Bejam eased to 175p prior to closing a penny cheaper at 174p. Hillards gave up 7 to 193p and William Morrison shed 4 to 200p. Elsewhere, Cadbury Schweppes lost 3 to 162p on lack of support, while Rowntree Mackintosh cheapened a couple of pence to 410p. Tate and Lyle were dull at 565p, down 5, and United Biscuits softened a penny to 225p. Bernard Matthews drifted off to close 5 lower at 225p, but Cheshire Wholefoods continued to reflect the chairman's confident annual statement and added 3 more to 233p.

Trusthouse Forte closed a penny off at 150p following news of the well-signposted agreement to acquire the hotels and restaurants business of Imperial Group from Hanson Trust for around £190m. Elsewhere in the Hotel sector, Norscot edged up 3 to 128p on takeover hopes, but Kennedy Brookes gave up 7 to 318p.

Oldacre soar on bid

The miscellaneous industrial sector was highlighted by an after-hours' leap of 78 in Oldacre to 183p following details of the agreed cash offer from Unigate, a penny dearer at 283p. Brengreen, meanwhile, a rising market of late on talk of a bid from Hawley, touched 45p before closing 2 higher on balance at 43½p on the agreed share exchange or cash alternative bid from BET, 17 lower at 423p. Burndene reflected the bumper interim results with a jump of 16 to 83p, after 87p, while pleasing preliminary figures left AAH 4 to the good at 238p. Consultants also drew strength from trading news with a rise of 6 at 106p, while revived takeover hopes lifted Bridon a few pence to 162p. Ted firmed 8 to 133p following acquisition details and Brantons hardened a couple of pence to 67p following the board's strong rejection of Carclo's bid. Equipu declined 15 at 140p following further nervous selling ahead of today's annual figures and Marling Industries, with preliminary figures on Friday, cheapened 4 at 73p. A liquidation of speculative positions left The Times Veneer 3½ lower at 55½p, while falls of 7 and 10 respectively were seen in Dwek, 106p, and Suter, 232p. Among the leaders, Boots followed Monday's speculative rise of 6 with a fresh improvement of 3 at 252p, after 255p. Glaxo gained 5 at 955p as did Metal Box at 740p. Reed International closed 25 easier at 970p on further profit-taking in the wake of the annual general meeting.

Jaguar, under persistent pressure recently as a member of brokers downgraded profits estimates, attracted occasional "cheap" buying and rallied 10 to 506p. Components, in contrast, closed a few pence easier for choice. Jonas Woodhead, volatile last week following the full-year profits recovery, dipped 3 to 58p, while "take-profits" advice left Kwik-Fit a couple of pence off at 106p. Distributors also lacked a decided trend. "Call" option business saw Appleyard improve a few pence at 133p, while Lex Service, interim figures due July 31, put on 2 to 309p. T. Cowie, however, gave up a couple of pence more to 165p; the mid-term profits are scheduled for early August.

Profit-taking left Home Counties 28 cheaper at 210p; the shares advanced 45 on Monday following news of a bid approach. Advertising agencies were irregular. Saatchi & Saatchi improved 10 to 685p, but adverse comment clipped a few pence from Charles Barker at 143p. Leading Properties marked time, but selected secondary issues made progress. Stockley attracted speculative support and firmed 2 to 88p, while Marler Estates moved up 20 to a year's high of 545p. Raglan revived with a gain of 7 at 680p and Parkdale added a penny more to 64p. Vaga Estates rose 10 to 390p in a restricted market, but profit-taking clipped 20 from Regalian at 610p and 5 from Mountview Estates at 735p. Rush and Tompkins slipped 5 to 262p, while Centrovincial softened a couple of pence to 170p despite the chairman's confident annual statement.

Textiles were rarely altered. Courtaulds put on a penny to 277p following the annual meeting, but Barmatex, first half figures scheduled for next Tuesday, eased a couple of pence more to 182p. Textured Jersey, unsettled last week following the cautious statement which accompanied the preliminary results, dipped 6 more to 152p; Henderson Administration now controls 15.62 per cent of the equity.

Financials trended lower where changed. Authority Investments, the subject of a tender offer from Berkley House intended to frustrate the original and agreed bid from Management Group, gave up 10 to 490p. Sporadic profit-taking left James Ferguson a few pence lower at 100p, while the annual profits recovery failed to sustain J. T. Parrish, finally 30 lower at 900p.

Oils steady

Leading oil shares put on another creditable performance in view of the sharp decline in crude oil prices in the run-up to Monday's Opec meeting in Geneva. The sector leaders opened on a firm note and, after easing a shade mid-morning, held steady for the rest of the session. Favourable Press comment helped BP and Shell put on 3 apiece to 583p and 793p respectively. Britoil, on the other hand, dipped 3 to 138p reflecting fears that Friday's interim results will include a cut in the dividend. Tricentrol hardened a couple of pence to 60p; the interim figures are scheduled for September 11 and not August 14 as reported in Tuesday's paper.

Secondary issues provided a couple of features in Oliver Resources, finally 4½ lower at 7½p, after 6½p, amid talk that the company's latest well in the Celtic Sea had proved unsuccessful, and Conroy Petroleum and Natural Resources, which dropped to 127p before rallying to close unaltered at 138p following the interim report.

Activity in mining markets remained at a low level. South African Golds continued to edge higher, aided by a steady performance by the Financial Rand, which held around 19.75 cents, and a resilient bullion price which prompted a modest amount of buying orders for the top quality issues. Among these, Vaal Reefs, boosted by American buying interest, added ¾ at £33, and Western Deep put on ¼ to £15¼. Randfontein moved up ½ to £40½. Firm features in the cheaper priced stocks included Driefontein, 750p, Freegold, 459p and Harmony, 505p, all of which showed gains in the region of 10, while Blyvoor were 7 firmer at 250p.

Sentiment in the sector was again highly sensitive ahead of President Reagan's speech on South Africa and the meeting today between Sir Geoffrey Howe, the Foreign Secretary, and President P. W. Botha.

The Gold Mines index edged up 1.3 to 189.7.

South African Financials were mixed. Gencor attracted good support and rose 23 to 685p, and Genbel added 25 at 475p but "Amgold" drifted ¾ to £34¾. UK stocks managed to register small improvements with Rio Tinto-Zinc up 9 at 549p and Consolidated Gold Fields 4 firmer at 437p.

Another gradual improvement in overnight Sydney and Melbourne markets and the steady sowing by the bullion price helped Australian Golds make renewed progress. Central Norseman moved up 10 more to 373p and Sons of Gwalia hardened a further 2 to a record high of 206p. Whim Creek added a similar amount to 107p and Metana put on 3 to 113p.

Elsewhere, Cornwall's Geevor Tin dipped 5 to a 1986 low of 20p.

Traded Options

Dealers reported another lively session in Traded Options. Once again, operators centred their attentions on Hanson Trust which contributed 4,457 calls and 998 puts. Elsewhere, Grand Metropolitan, Boots and Cadbury Schweppes all attracted a four-figure turnover. The FT-SE 100 index remained in demand with 889 calls and 1,536 puts struck. Total contracts transacted amounted to 20,860—the highest for two weeks.

Councils warned on civil defence

LOCAL COUNCILS which do not implement civil defence measures for nuclear war would face financial penalties, Mr Giles Shaw, Home Office Minister, said yesterday.

There was "a widespread lack" of committed planning by local authorities, most of them had not done sufficient to fulfil their obligations under the 1983 civil defence regulations, he said.

FINANCIAL TIMES STOCK INDICES

	July 22	July 21	July 18	July 17	July 16	year ago	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs	88.74	88.56	88.88	89.48	89.48	83.29	94.51 (18/4)	80.39 (20/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	95.55	95.63	95.92	96.14	96.01	88.26	97.68 (7/7)	86.55 (23/1)	150.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1274.7	1276.3	1295.4	1316.8	1306.3	921.1	1425.9 (3/4)	1094.3 (14/1)	1425.9 (3/4/86)	49.4 (26/6/40)
Gold Mines	189.7	188.4	185.7	186.3	188.5	386.7	357.0 (27/1)	185.7 (18/7)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.31	4.31	4.25	4.19	4.23	5.03				
Earnings Yld.%(full)	10.41	10.40	10.25	10.10	10.19	12.55				
P/E Ratio (net) (*)	11.68	11.70	11.86	12.05	11.93	9.73				
Total Bargains (Est)	23,348	26,074	23,173	18,575	25,183	19,500				
Equity Turnover £m.	—	435.55	616.78	531.53	500.97	283.98				
Equity Bargains	—	21,392	20,281	22,083	18,308	15,343				
Shares Traded (ml).	—	214.3	304.9	266.4	255.3	138.3				

S.E. ACTIVITY

Indices	July 21	July 18
Gilt Edged Bargains	128.3	121.2
Equity Bargains	138.6	131.4
Equity Value	880.4	1,246.7
5-Day Average		
Gilt Edged Bargains	138.3	145.5
Equity Bargains	134.4	137.9
Equity Value	1,059.7	1,138.6

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1279.9	1280.5	1280.3	1278.2	1275.9	1275.6	1273.8	1273.5

Day's High 1281.3. Day's Low 1273.5.

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974 *Nil=11.29.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

FT-ACTUARIES SHARE INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tuesday July 22 1986 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (ACT at 29%)	Est. P/E Ratio (Net)	xd adj. 1986 to date	Mon July 21 Index No.	Fri July 18 Index No.	Thur July 17 Index No.	Year ago (approx.) Index No.
1	CAPITAL GOODS (212)	698.01	−0.3	8.78	3.51	14.51	9.26	700.26	714.03	721.62	489.14
2	Building Materials (26)	793.68	−0.6	8.92	3.64	14.10	11.47	798.64	813.12	816.85	527.67
3	Contracting, Construction (30)	1223.36	+0.1	7.81	3.73	17.52	18.95	1221.78	1249.87	1256.12	605.65
4	Electricals (12)	1818.48	−0.3	8.66	4.20	15.12	33.82	1823.11	1851.62	1862.98	1311.68
5	Electronics (38)	1570.36	−0.4	9.67	3.01	13.77	12.41	1576.23	1592.32	1616.87	1310.57
6	Mechanical Engineering (61)	389.76	−0.3	9.90	4.14	12.87	6.44	390.83	399.88	403.17	265.51
8	Metals and Metal Forming (7)	331.73	−0.8	8.73	4.30	14.59	5.01	334.35	345.95	347.13	181.99
9	Motors (16)	289.97	+0.2	9.18	3.34	12.82	3.78	289.28	298.99	304.73	158.64
10	Other Industrial Materials (22)	1245.93	−0.4	6.75	3.19	17.83	17.26	1251.04	1277.51	1294.71	863.66
21	CONSUMER GROUP (183)	890.99	+0.1	8.08	3.30	15.56	12.39	890.03	905.94	921.23	632.24
22	Brewers and Distillers (22)	892.66	+0.3	9.66	3.68	12.64	11.25	890.01	903.15	924.85	608.14
25	Food Manufacturing (22)	658.07	−0.7	9.67	3.97	13.52	12.20	662.67	677.95	682.63	471.98
26	Food Retailing (15)	1774.62	−0.8	6.47	2.90	21.09	16.13	1789.34	1831.36	1840.99	1495.62
27	Health and Household Products (10)	1510.50	+0.2	5.53	2.28	21.36	11.71	1508.06	1529.04	1566.90	995.14
29	Leisure (28)	873.09	−0.8	8.19	4.11	16.01	18.83	880.13	892.95	899.37	592.60
32	Publishing & Printing (14)	2476.29	−1.1	7.75	4.04	16.65	48.48	2502.96	2558.21	2558.76	1708.03
33	Packaging and Paper (14)	470.49	+0.1	7.02	3.37	18.58	6.75	470.09	479.65	479.08	325.07
34	Stores (39)	849.57	+0.5	7.06	2.90	19.25	10.49	845.34	857.66	875.29	634.16
35	Textiles (17)	533.02	−0.1	9.30	3.63	11.81	8.01	533.59	543.67	549.85	305.06
36	Tobaccos (2)	1089.17	+3.2	13.79	4.49	8.02	20.60	1055.64	1063.72	1125.41	774.48
41	OTHER GROUPS (88)	746.78	−0.5	9.00	4.20	14.26	8.50	750.56	751.93	771.70	654.17
42	Chemicals (20)	916.32	+0.3	9.98	4.43	12.15	17.64	913.71	918.65	925.59	674.34
44	Office Equipment (4)	245.83	−0.7	7.56	4.31	16.00	4.59	247.66	249.92	252.24	187.66
45	Shipping and Transport (13)	1459.78	−0.1	7.85	4.27	16.08	28.44	1461.05	1471.18	1478.22	1099.76
47	Telephone Networks (2)	765.10	−1.5	10.98	4.88	12.44	2.53	776.71	792.74	805.31	840.20
48	Miscellaneous (49)	1021.05	−0.1	6.62	3.35	18.89	11.68	1022.83	1041.66	1053.13	796.94
49	INDUSTRIAL GROUP (483)	814.21	−0.1	8.48	3.57	14.96	10.70	815.42	829.85	841.71	607.11
51	Oil & Gas (17)	1201.03	+0.3	17.02	7.52	7.03	41.46	1197.04	1195.36	1208.67	1039.88
59	500 SHARE INDEX (500)	848.20	−0.1	9.41	4.00	13.33	13.12	849.01	862.29	874.32	647.66
61	FINANCIAL GROUP (117)	598.08	−0.5	—	4.47	—	11.21	600.93	611.55	615.06	461.31
62	Banks (7)	639.10	−0.9	17.27	5.51	8.04	14.03	644.77	657.11	662.85	473.51
65	Insurance (Life) (9)	845.02	−0.6	—	4.42	—	17.27	849.90	878.30	876.29	720.43
66	Insurance (Composite) (7)	486.77	−0.4	—	4.26	—	9.46	488.74	495.35	498.19	368.72
67	Insurance (Brokers) (9)	1172.53	+0.5	8.91	4.07	14.67	23.40	1166.26	1193.97	1195.28	1018.14
68	Merchant Banks (12)	333.31	−0.7	—	3.27	—	4.56	335.70	343.39	347.05	229.59
69	Property (50)	732.16	−0.2	5.55	3.51	23.84	10.81	783.87	790.01	796.03	599.34
70	Other Financial (23)	339.89	—	8.07	4.52	15.22	5.75	339.91	341.29	342.92	261.34
71	Investment Trusts (101)	745.41	−0.3	—	3.03	—	9.71	747.30	757.39	756.75	564.84
81	Mining Finance (2)	248.94	+1.4	14.48	6.44	8.05	6.11	245.43	246.08	254.39	255.61
91	Overseas Traders (14)	655.49	+0.3	11.56	6.63	10.27	19.63	653.54	667.50	674.79	609.66
99	ALL-SHARE INDEX (734)	774.43	−0.1	—	4.07	—	12.45	775.58	787.84	797.37	595.12

	Index No.	Day's Change	Day's High	Day's Low	July 21	July 18	July 17	July 16	July 15	Year ago
FT-SE 100 SHARE INDEX ♣	1559.2	−1.0	1566.3	1556.7	1560.2	1584.4	1609.9	1597.3	1593.0	1233.1

FIXED INTEREST

	PRICE INDICES	Tues July 22	Day's change %	Mon July 21	xd adj. today	xd adj. 1986 to date
	British Government					
1	5 years	121.74	+0.04	121.69	—	6.39
2	5-15 years	139.65	+0.18	139.39	—	7.78
3	Over 15 years	146.87	+0.25	146.50	—	7.93
4	Irredeemables	162.90	+0.53	162.04	—	7.27
5	All stocks	136.03	+0.15	135.82	—	7.57
	Index-Linked					
6	5 years	112.77	—	112.76	—	1.18
7	Over 5 years	114.74	+0.01	114.73	—	1.99
8	All stocks	114.35	+0.01	114.36	—	1.84
9	Debentures & Loans	119.37	−0.22	119.63	—	5.82
10	Preference	85.02	−0.03	85.05	—	3.73

	AVERAGE GROSS REDEMPTION YIELDS		Tues July 22	Mon July 21	Year ago (approx.)
	British Government				
1	Low Coupons	5 years	8.27	8.27	10.09
2		15 years	9.28	9.31	10.18
3		25 years	9.30	9.34	10.13
4	Medium Coupons	5 years	9.64	9.66	10.94
5		15 years	9.62	9.66	10.50
6		25 years	9.62	9.66	10.08
7	High Coupons	5 years	9.80	9.83	11.04
8		15 years	9.79	9.81	10.64
9		25 years	9.61	9.65	10.16
10	Irredeemables†		9.28	9.29	10.01
	Index-Linked				
11	Inflat'n rate 5%	5 yrs	3.99	3.98	0.0
12	Inflat'n rate 5%	Over 5 yrs	3.57	3.57	0.0
13	Inflat'n rate 10%	5 yrs	2.70	2.68	0.0
14	Inflat'n rate 10%	Over 5 yrs	3.40	3.40	0.0
15	Debs & Loans	5 years	10.07	10.03	11.44
16		15 years	10.42	10.39	11.34
17		25 years	10.50	10.47	11.23
18	Preference†		10.79	10.79	12.35

♣ Opening index 1563.7; 10 am 1566.0; 11 am 1564.4; Noon 1562.4; 1 pm 1559.5; 2 pm 1558.7; 3 pm 1557.1; 3.30 pm 1557.3; 4 pm 1557.1

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, the Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 28p.

CONSTITUENT CHANGES:— Samuel Properties (69) has been deleted and replaced by Clayform Properties (69).

NEW HIGHS AND LOWS FOR 1986

NEW HIGHS (37)

AMERICANS (2) Colt Inds., Ford Motor. BANKS (1) Algemene Bank. BUILDINGS (2) Crouch (D.), HAT Group. STORES (1) Milletts Leisure. ELECTRICALS (2) Arlen, Logica. FOODS (5) Cheshire Wholefoods, FII, Park Food, Safeway, Tavener Rutledge. HOTELS (1) Norscot. INDUSTRIALS (9) Astra AB, Borg-Warner, Brengreen, Bullers, Burndene, Oldacre, Sterling Inds., Stocklake, Worcester. INSURANCE (1) Marsh & McLennan. LEISURE (1) A-R TV Pref. MOTORS (1) Lookers. PROPERTY (4) Estates Prop. Inv., Do. 10¾pc Cnv.Ln. '94, Grainger Trust, Marler Estates. TRUSTS (3) M & G 2nd Cap., Roronto NV, Smaller Cos. Inv. OILS (1) Petrofina. MINES (3) Sons of Gwalia, York Res., Highwood Res.

NEW LOWS (39)

AMERICANS (5) Amer. Medical Int., Bethlehem Steel, Honeywell, IU Intl., Louisiana Land. BANKS (2) Mercury Intl., Do. 6pcACvPf. STORES (1) Prontaprint. ELECTRICALS (8) Black and Decker, Cambridge Elect., Dale Elect., Dowding and Mills, Intnl. Signal and Control, Norsk Data A, Polytechnic Elect., Telemetric. FOODS (1) Bio-Isolates. HOTELS (2) Garfunkels Restaurants, Norfolk Capital. INDUSTRIALS (5) Combined Tech., Equipu, Green (E.) and Partners, Securicor, Do. A NV. NEWSPAPERS (2) Collins (Wm.) A, Portsmouth and Sunderland. PAPER (4) Barker (C.), LCA, Peters (Michael), Saatchi & Saatchi 6.3pcCvPrf. TRUSTS (5) American Trust B, Brit. Assets, Contl. Assets, Independent Inv., North Sea Assets. OILS (2) Gulfstream Res., INOCO. MINES (2) Zandpan, Geevor Tin.

BASE LENDING RATES

	%		%
ABN Bank	10	Exeter Trust Ltd.	10½
Allied Arab Bank Ltd	10	Financial & Gen. Sec.	10
Allied Dunbar & Co	10	First Nat. Fin. Corp.	11
Allied Irish Bank	10	First Nat. Sec. Ltd.	11
American Express Bk.	10	● Robert Fleming & Co.	10
Amro Bank	10	Robert Fraser & Ptrs.	11
Henry Ansbacher	10	Grindlays Bank	‡10
Associates Cap Corp.	10	● Guinness Mahon	10
Banco de Bilbao	10	● Hambros Bank	10
Bank Hapoalim	10	Heritable & Gen. Trust	10
Bank Leumi (UK)	10	● Hill Samuel	§10
Bank Credit & Comm.	10	C. Hoare & Co.	10
Bank of Cyprus	10	Hongkong & Shanghai	10
Bank of Ireland	10	Knowsley & Co. Ltd.	10½
Bank of India	10	Lloyds Bank	10
Bank of Scotland	10	Mase Westpac Ltd.	10
Banque Belge Ltd	10	Meghraj & Sons Ltd.	10
Barclays Bank	10	Midland Bank	10
Benchmark Trust Ltd	10	● Morgan Grenfell	10
Beneficial Trust Ltd	11	Mount Credit Corp. Ltd	10
Brit. Bk. of Mid. East	10	National Bk. of Kuwait	10
● Brown Shipley	10	National Girobank	10
CL Bank Nederland	10	National Westminster	10
Canada Permanent	10	Northern Bank Ltd.	10
Cayzer Ltd	10	Norwich Gen. Trust	10
Cedar Holdings	11	PK Finans. Intl (UK)	10½
● Charterhouse Bank	10	Provincial Trust Ltd.	11
Citibank NA	10	R. Raphael & Sons	10
Citibank Savings	¶10¾	Roxburghe Guarantee	11
City Merchants Bank	10	Royal Bank of Scotland	10
Clydesdale Bank	10	Royal Trust Co. Canada	10
Comm. Bk. N. East	10	Standard Chartered	10
Consolidated Credits	10	Trustee Savings Bank	10
Continental Trust Ltd.	10	UDT Mortgage Express	¶10.9
Co-operative Bank	*10	United Bank of Kuwait	10
The Cyprus Popular Bk.	10	United Mizrahi Bank	10
Duncan Lawrie	10	Westpac Banking Corp.	10
E. T. Trust	11	Whiteaway Laidlaw	10½
Equatorial Tst Corp. plc	10	Yorkshire Bank	10

● Members of the Accepting Houses Committee. * 7-day deposits 5.69%. 1-month 6.03%. Top Tier—£25,000+ at 3 months' notice 9.72%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 6¼% gross. ¶ Mortgage base rate. § Demand deposit 5.82%. Mortgage 11%.

EUROPEAN OPTIONS EXCHANGE

Series		Aug. Vol.	Aug. Last	Nov. Vol.	Nov. Last	Feb. Vol.	Feb. Last	Stock
GOLD C	$340	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GOLD C	$370	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
GOLD C	$320	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
GOLD P	$340	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
GOLD P	$360	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
		Sept.		Dec.		March		
Silver C / $FL C / $FL P series	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
		July		Oct.		Jan.		
ABN C to NATN C series	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NATN C	Fl.85	101	1.50	—	—	—	—	Fl.80
NATN P	Fl.80	78	3.30A	70	5	13	7B	
PHIL C	Fl.56	955	1.50	443	3	25	3,708	Fl.49.30
PHIL P	Fl.50	449	3	612	4	106	4.50	
RD C	Fl.200	1074	3	167	6.70	20	10B	Fl.188.20
RD P	Fl.190	359	7.60	63	8.50	27	9.20	
ROBE C	Fl.95	6	1.20	—	—	—	—	Fl.89.70
ROBE P	Fl.90	35	2.30	10	3.10	—	—	
UNIL C	Fl.500	255	16.50	99	28	60	36.50	Fl.482.50
UNIL P	Fl.460	335	6	12	9.50	—	—	

TOTAL VOLUME IN CONTRACTS: 47,253

A=Ask B=Bid C=Call P=Put

TRADITIONAL OPTIONS

Active conditions prevailed in Options with calls taken out in Appleyard, Boots, Freshbake Foods, Raine Industries, C. & W. Walker, Equity and General, Bristol Oil and Minerals, Polly Peck, Morgan Grenfell, Amstrad, Densitron, Thomas Marshall (Loxley), Abaco Investments, Britoil, York and Equity, Sound Diffusion, Dominion International, HAT, Parkdale, Percy Bilton, Armstrong Equipment, Argyle Trust, Fobel International, Owners Abroad, London International, Thurgar Bardex, Spong, Allebone and Apricot Computers. A put was taken out in London International, while doubles were arranged in Brengreen and Stewart Wrightson.

YESTERDAY'S ACTIVE STOCKS

Above average activity was noted in the following stocks yesterday

Stock	Closing price	Day's change	Stock	Closing price	Day's change
Abaco Invs	72	− 1	Consultants	106	+ 6
BAT Inds	388	+13	Courtaulds	277	+ 1
Boots	252	+ 3	Jaguar	506	+10
British Aerospace	486	+ 3	Logica	215	+15
BP	583	+ 3	Tozer Kemsley	156	+ 8
Burton	288	—	Wight Collins RS	440	− 5

MONDAY'S ACTIVE STOCKS

Based on bargains recorded in SE Official List

Stock	No. of changes	Mon. close	Day's change	Stock	No. of changes	Mon. close	Day's change
Jaguar	17	496	−24	Barclays	13	502	−12
Hughes Food	16	23	—	Lloyds Bank	13	406	−12
Glaxo	15	950	−13	Lucas Inds.	13	562	−13
Mrgn. Grenfell	15	452	—	Nat. West. Bk.	13	507	−10
Boots	14	249	+ 6	Bejam	12	175	− 7
Cable & Wire.	14	675	−13	Grand Met.	12	370	−10

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	60	6	46
Corporations, Dominions and Foreign Bonds	5	20	45
Industrials	201	502	805
Financial and Properties	60	145	372
Oils	16	22	80
Plantations	1	1	13
Mines	50	35	101
Others	56	78	114
Totals	449	809	1,576

LONDON TRADED OPTIONS

Option		Calls July	Calls Oct.	Calls Jan.	Puts July	Puts Oct.	Puts Jan.
Allied Lyons (*325)	280	[illegible]	[illegible]	[illegible]	1	6	8
	300	[illegible]	[illegible]	[illegible]	10	20	23
	330	[illegible]	[illegible]	[illegible]	37	40	45
B.P. (*583)	[illegible]	[illegible]	[illegible]	[illegible]	1	4	8
	[illegible]	[illegible]	[illegible]	[illegible]	1	15	22
	[illegible]	[illegible]	[illegible]	[illegible]	20	40	48
Cons. Gold (*437)	[illegible]	[illegible]	[illegible]	[illegible]	3	25	32
	[illegible]	[illegible]	[illegible]	[illegible]	37	50	54
Courtaulds, Com. Union, Cable & Wire, Distillers, G.E.C., Grand Met., I.C.I., Land Sec., Marks & Spen., Shell Trans., Trafalgar House, Brit Aero, BAT Inds, Barclays, Brit. Telecom, Cadbury Schweppes, Imperial Gr., Ladbroke, LASMO	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		Calls Aug.	Calls Nov.	Calls Feb.	Puts Aug.	Puts Nov.	Puts Feb.
P. & O. (*489)	460	38	52	72	3	14	20
	500	10	28	47	22	35	40
	550	3	10	22	65	67	72
	600	1	4	—	115	115	—
Racal (*172)	180	9	17	21	13	15	17
	200	2	8	13	30	30	32
R.T.Z. (*547)	550	22	55	72	17	27	30
	600	7	30	42	57	60	62
R.T.Z. further rows, Vaal Reefs, Tr. 11¾% 1991, Tr. 11¾% 03/07, Beecham, Boots, BTR, Bass, Blue Circle, De Beers, Dixons, GKN, Glaxo, Hanson, Jaguar, Thorn EMI, Tesco, FT-SE Index (*1557)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

July 22. Total contracts 20,860. Calls 12,689. Puts 8,171.
*Underlying security price.

WORLD STOCK MARKETS

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. $ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Kroner.

CANADA

Indices

* Saturday July 19: Japan Nikkei 17,841 3. TSE 1,402 06

Base value of all indices are 100 except Brussels SE—1,000; JSE Gold—255.7, JSE Industrial—264.3, and Australia, All Ordinary and Metals—500 NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto Indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

* Indicates pre-close figure

OVER-THE-COUNTER *Nasdaq national market, 2.30pm prices*

Continued from Page 37

Stock		Sales (Hnds)	High	Low	Last	Chng
Petrlte	1 12	8	24¼	23¾	24¼	
Phrmct		971	14½	13¼	14	+ ½
PhilGl	.60a	638	20⅝	20⅜	20½	− ⅜
PhnxAm		80	4	3¾	4	+ ¼
PicSavs		673	25¾	25¼	25½	− ¼
PicCafs	.48	279	21¼	21	21¼	
RoadSv	1 10	922	34¼	23¼	34¼	+ ¾
RobVsn		87	6	5½	6	+ ⅜
Rouses	.60	274	31½	31	31½	+ ½
RoyPlm	1	52	8¾	8½	8¾	+ ¼
RoylRs		1	2⅝	2⅝	2⅝	− ¼
RustPel		27	7¾	7½	7½	
RyanFs		1949	20¾	19¾	20⅜	− ⅜

LONDON

Chief price changes (In pence unless otherwise indicated)

RISES		
Arlen Elect	92	+ 4
Brengreen	43½	+ 2
Burndene Invs	83	+16
CASE	79	+15
Consultants	106	+ 6
HAT Group	124	+30
ICI	991	+ 5
Jaguar	506	+10
Marler Estates	545	+20
Oldacre	183	+78
Raine Inds	84	+ 3
Stewart Wrightson	462	+23
Tod	133	+ 8

FALLS		
ASDA-MFI	138	− 4
Blackwood Hodge	40	− 3½
Equipu	140	−15
Goring Kerr	370	−30
Hom Count Nws	210	−28
Lloyds Bank	398	− 8
Mang Bronze	67	− 3
Oliver Res	7½	− 4½
Reed Intl	970	−25

Swiss Volksbank profits leap

BY JOHN WICKS IN ZURICH

SWISS VOLKSBANK, of Berne, reports "substantially higher" earnings in the second quarter than for the corresponding period of 1985. This follows a similar jump in profits for the first quarter.

The bank, one of Switzerland's big five, says that cash-flow showed a marked increase for the first half both in comparison with last year and compared with its own expectations.

For 1986 the board expects "good results." Last year, net earnings had risen by 34.8 per cent to SFr 101.1m ($59.5m), permitting an increase in dividends from SFr 60 to SFr 70 per share and from SFr 6 to SFr 7 per participation certificate.

The continued increase in profits is attributed primarily to higher commissions from securities transactions. Good growth rates and nearly unchanged margins led to a noticeable rise in interest income.

Over the first half the balance sheet total expanded by 5.9 per cent to some SFr 27.15bn, with clients' deposits up 3.8 per cent to SFr 21.68bn and loans and advances to clients higher by 5.9 per cent at SFr 18.94bn.

In the inter-bank sector, the due-from-banks total dropped during the second quarter but was still 15.1 per cent up on the end of 1985 at SFr 3.77bn, while the due-to-banks figure rose 11.1 per cent to SFr 2.88bn.

E. F. Hutton files law suit to recoup losses

BY WILLIAM HALL IN NEW YORK

E. F. HUTTON, the Wall Street brokerage firm, has filed a near $200m law suit in a bid to recoup its losses in a complex securities trading fraud which contributed to a surprise deficit of $12.2m in the final quarter of last year.

Mr George Aubin, a Houston entrepreneur together with 20 other individuals and companies allegedly operating under his control or in concert with him, have been accused by Hutton of defrauding it of $48m between late 1984 and early 1985.

Hutton added that it was reviewing the conduct of its own employees in connection with these activities and would take "appropriate disciplinary action."

Hutton alleges that Mr Aubin set up a complex scheme involving more than 30 trading accounts at Hutton engaged in the simultaneous purchase and sale of large amounts of securities, options and futures.

The firm claims that by insisting on payments for the sale of securities the day following each sale ("prepayments") and delaying payments until the settlement date or beyond, he was able to use the prepayments to meet margin requirements and increase his trading positions in accounts that – without such excessive leveraging – would have shown a deficit balance.

In late February 1985, Hutton management in New York halted Mr Aubin's "prepayment" scheme. During the same period he suffered severe commodity trading losses. To cover these losses and meet margin calls, Mr Aubin and the companies he controlled delivered to Hutton 28 cheques, which subsequently bounced, for a total of $46.4m.

In March 1985, Mr Aubin and his associates agreed to substitute a promissory note of another corporation for the amount owed under the previous trading losses. As security, Mr Aubin pledged the equity in two Texas saving and loan associations which were said to be worth more than $100m.

Hutton alleges that the two institutions are now insolvent and were placed in conservatorship in March.

The litigation seeks $48m in actual damages, treble damages, and punitive damages of not less than $50m and seeks the appointment of a receiver to take control of the defendats' assets.

Prices at 3pm, July 22

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26½	13½	AAR s	.44	1.9	16	43	23¾	23⅜	23⅜	−⅛
30	21¾	ADT	.92	4.0		422	23¼	22	23¼	+1¼
33	11½	AFG s			25	495	30⅝	30½	30⅝	+⅜
25⅜	13¾	AGS			14	162	19	17½	18½	+1
60⅝	37½	AMR			13	2845	49½	48	49½	+1¼
27½	23¼	ANR pf2.67		10.		2	26	26	26	
13½	8½	APL			6	23	11⅜	11⅜	11⅜	
16¾	11⅛	ARX	.71t	6.0	11	31	12	11¾	11¾	−¼
51	28¾	ASA	2a	6.3		142	31⅞	31⅜	31¾	+⅛
18⅜	10½	AVX		2.9		265	11	10⅝	10⅞	−⅛
32	22⅝	AZP	2.72	8.7	8	776	31⅛	31	31⅛	+⅛
55	28⅝	AbtLb s	.84	1.6	24	1888	51⅜	50⅝	51⅛	+⅝
32	19⅝	AccoWd	.56	2.1	18	20	26⅞	26¾	26¾	
16⅞	9⅛	AcmeC	.40	4.1		336	10	9½	9⅞	+⅜
9¼	7	AcmeE	.32b	4.0	20	33	8⅛	8	8	−⅛
20¾	17	AdaEx	1.90e	9.3		95	20⅝	20⅜	20½	+⅛
33½	16	AdmMl	.40	1.3	14	10	31¼	31⅛	31¼	+⅜
20⅜	11¼	AdvSys	.83t	4.8	16	26	17⅜	16¾	17⅜	+⅛
32⅞	14¼	AMD				4715	15⅜	14¾	15	+¼
12⅝	6¾	Adobe n				16	6⅞	6⅞	6⅞	
18⅜	14⅝	Adob pf	1.84	12.		3	15⅛	15⅛	15⅛	
20¼	15¼	Adob pf	2.40	14.		18	17⅜	17¼	17¼	
18⅜	7⅜	Advest	.12a	7	13	454	16½	16¼	16⅜	+⅛
66¼	42¼	AetnLf	2.64	4.5	11	1200	59½	58⅝	58¾	
28¾	9⅝	Ahmns s	.48	1.7	9	3051	27½	26⅝	27½	+1¼
5¾	2½	Aileen			85	34	4⅞	4⅝	4¾	
41⅝	25¾	AirPrd s	.80	2.4	61	2835	34½	33	33¾	+½

Continued on Page 37

NYSE COMPOSITE PRICES

Continued from Page 36

AMEX COMPOSITE PRICES

Prices at 3pm, July 22

OVER-THE-COUNTER

Nasdaq national market, 2.30pm prices

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

Continued on Page 35

FINANCIAL TIMES
WORLD STOCK MARKETS

WALL STREET

Gloomy GNP figures spark rally

FURTHER evidence of a weakening US economy sparked an early rally on Wall Street yesterday, *writes Paul Hannon in New York.*

The Commerce Department's preliminary estimate of second-quarter gross national product showed economic expansion at an annual rate of 1.1 per cent compared with the revised first-quarter rate of 3.8 per cent. Although the figures are weak, and within recent forecasts, they put further pressure on the Federal Reserve to move again on interest rates.

Mr Malcom Baldrige, the Commerce Secretary, added weight to the rate argument by saying that he expected the economy to improve but the timing of such an upturn was "uncertain" and that interest rates had a "reasonable" chance of falling further.

The bond market, however, fell sharply with losses of up to ¾ of a point.

At the close the Dow Jones industrial average was up16.02 at1,795.13.The hints of lower rates boosted the utilities average to a fresh record early in the session.

Among blue chips, IBM firmed $1⅜ to $133¼ as the reporting season for the computer industry gathered momentum, GM added $¼ to $74⅞ in response to its joint diesel venture with Deere, while General Electric shed $⅝ to $74⅞ in heavy trading.

LTV, the troubled steel producer, continued to find steady buying support as it advanced $¼ to $3. USX, the former US Steel, dipped $⅛ to $17¼, while Bethlehem lost more ground with its $½ fall to $10⅝.

The stores sector was again busy as Sears, the largest US retailer, picked up $½ to $43 in response to its firmer second quarter results.

Safeway, the leading supermarket chain, jumped $2⅝ to $60⅝ in heavy trading after Dart increased its bid to $64 per share or a total of $3.9bn. Dart, which is traded on the over-the-counter market, advanced $2 to $156.

Kroger, the second largest supermarket chain after Safeway, jumped $3⅛ to $62⅛ in response to its $95m restructuring charge and plan *to close up to 100* unprofitable units.

The computer sector was awash with results. Prime Computers, which announced lower second-quarter figures and plans to buy back up to 5 per cent of its shares, rose $1⅜ to $18¼.

The surge in third-quarter profits for Tandem Computers was warmly received as the group sprinted $1⅜ ahead to $30⅝ in over the counter trading. On the American Stock Exchange, Wang Laboratories rose $⅜ to $12½ in active trading while Amdahl's poor second-quarter performance merited it a $⅛ gain to $16⅜.

Cray Research surrendered part of Monday's results-inspired advance to trade $⅝ lower to $92.

Also responding to results were Becton Dickinson, the health care group, which added $1⅜ to $54¼ on its stronger figures. Baxter Travenol, the medical products manufacturer, which edged $⅛ higher to $18⅝ despite a fall in second-quarter profits. Squibb, the diversified drugs to medical equipment group, gained $2 to $118⅝.

Dart & Kraft gained $⅛ to $60 after posting a modest gain for the last quarter, while PepsiCo, which scored solid progress in the last three months, picked up $⅛ to $31⅛ in moderate turnover.

Among airlines, Tiger International was the latest to report. The freight group shed an early $⅛ to $4⅛ on its $22m loss compared with a $10m profit in the corresponding period. TWA, which revealed a loss late on Monday, firmed $⅛ to $14⅞.

Union Carbide gained an early $⅛ to $22⅞ after revealing plans to sell its international agricultural divisions.

At $30⅝, Mobil was $⅝ ahead on its earnings jump in the last three months to $582m.

Minnesota Mining rose $1 to $110⅝ on its steady growth in profits for the last three months.

Panhandle Eastern, the pipeline group, was traded actively lower with a $1⅜ drop to $43⅞ on consideration of its decision to write off more than $460m in a gas dispute settlement with Sonatrach.

In the bond market, prices moved sharply lower at the long end with the key Treasury bond, the 7¼ per cent due 2016, dropping almost ¾ of a point at 100⅝ to yield 7.23 per cent. The other key issue, the 7⅜ due in 1996, fell ¼ at 101¹⁵⁄₃₂ to yield 7.16 per cent.

Federal funds opened at 6⅝, a level at which the Federal Reserve announced a $1.5bn customer repurchase later in the morning. The funds rate then moved to 6⁹⁄₁₆.

The rate on the three-month Treasury bill was unchanged at 5.72 per cent as was the six-month bill at 5.77 per cent.

The one-year bill firmed two basis points to 5.83 per cent.

LONDON

INVESTMENT CONFIDENCE failed to revive in London equity markets yesterday. However, underlying conditions were much steadier after the fall in leading shares which left the Financial Times Ordinary share index down just over 40 points over the previous two trading sessions.

An opening revival in the leaders was reflected in a gain of 4.2 in the FT-30 share index at the 10am calculation, but by the close the index had settled back 1.6 on the day at 1,274.7. The more broadly based FT-SE share index closed 1.0 off at 1,559.2 after having recorded an earlier rise of 6.1.

Chief price changes, Page 35; Details, Page 34; Share information service, Page 32-33

SINGAPORE

FURTHER profit-taking pushed Singapore lower again as both domestic and foreign investors took up residence on the sidelines.

The Straits Times industrial index ended the session down 5.40 at 728.78 on turnover slightly up from Monday.

Some late bargain-hunting brought issues up from their lows of the day, however.

Among industrials, Singapore Press gave up 10 cents to S$7.75, Straits Trading fell 8 cents to S$2.75 and Cycle & Carriage slid 8 cents to S$1.44. Fraser & Neave moved 5 cents higher against the trend to S$7.35.

SOUTH AFRICA

A SLIGHTLY firmer bias in gold shares which drove the All Gold index up 10.2 points to a record 1,335.6, also helped nudge the overall market index to a new high of 1,595 from Monday's 1,591.7. Vaal Reefs gained R5 to R261 but Randfontein eased R2.50 to R307.

The wider market closed mixed in moderate trading, with the industrial index slipping 3.6 from the previous day's record close of 1,219.2.

AUSTRALIA

POPULARITY AMONG the gold issues buoyed Sydney despite investor nervousness ahead of consumer price figures which dampened enthusiasm among industrial and mining stocks.

Turnover shot up from the previous session to stand at 65.4m shares worth A$122m against 46.9m shares valued at A$60m on Monday.

BHP and Elders IXL were again heavily traded with the former ending unchanged at A$8.38 and the latter slipping 5 cents to A$4.95.

Golds were led higher by Central Norseman, 30 cents up at A$8.80. Other gainers included Emperor, up 10 cents at A$3.00 and Sons of Gwalia, higher by a similar amount at A$4.85.

CANADA

METALS and minerals led a modest rise in busy trading as Toronto stocks responded to a resurgence on Wall Street.

Alcan, which gained C$1⅛ after publishing strong second quarter earnings on Monday, put on another C$⅞ to trade at C$40⅝, while Inco added 50 cents to C$16⅝.

Northern Telecom's predictions of a strong second half pushed the shares C$⅝ higher to C$38 despite the expected dip in second-quarter earnings. Oil stocks consolidated recent moderate gains.

EUROPE

Weak dollar continues to depress

THE CONTINUING weakness of the dollar depressed the mood again in many European centres with the downward drift exacerbated by the volume of trading during the summer holiday season.

In **Frankfurt**, some bargain hunting emerged as shares continued to drift but it managed only to slow the decline. The Commerzbank index, 12.5 down at 1,762.4, registered a low for the year.

Motor stocks were at the centre of much of the day's activity, recovering *from early sharp losses but still ending* broadly lower. Daimler-Benz finished a net DM 4.50 easier at DM 1,106, having recouped most an early DM 30.50 fall.

BMW was DM 8 lower at DM 542, Porsche dropped DM 4 to DM 965 and Volkswagen was DM 3.10 lower at DM 442.

Degussa, the precious metals concern, suffered the largest decline in its sector with a DM 10 fall to DM 360.

In chemicals, Bayer shed DM 1.80 to DM 285, BASF DM 1 to DM 239 and Hoechst 50 pfg to DM 241.

Among blue chips, Siemens bucked the trend with a DM 2.20 rise to DM 293 after recovering from a low of DM 585.50 as BASF said the two groups were discussing co-operation in large computers compatible with IBM systems.

Banks were lower with Commerzbank and Dresdner each down DM 4.50 at DM 279 and DM 380.50 respectively.

Bond prices ended a moderate session higher, boosted by expectations that the dollar would drop below DM 2.10 by the end of the week and the belief that interest rates will continue to fall. Foreign investors, in particular, provided new demand for longer-dated maturities.

The Bundesbank sold DM 111.1m of paper after sales totalling DM 100.8m the previous day.

In **Zurich**, shares suffered one of their sharpest falls in recent years as the Swiss Bank Corporation index dropped 19.2 points, or 3.2 per cent, to the year's low of 581.2.

Domestic instutions were reported not to have joined in the sell-off, but heavy sales were reported by foreign institutions and some small domestic investors.

Around 10 per cent has been wiped off the value of Swiss shares over the past two weeks. The index began the year at 659.8 and peaked at 673.4 on January 8.

Among transport stocks, the Swissair bearer was down SFr 80 to SFr 1,240.

Despite good mid-year reports, the major banks followed the downward trend. UBS shed SFr 150 to SFr 5,320 and Swiss Bank Corp fell SFr 18 to SFr 490.

Among the leading industrial companies, Ciba Geigy shed SFr 160 to SFr 2,150 and Sandoz fell SFr 700 to SFr 10,400.

Bonds ended mixed to slightly lower in extremely thin and quiet trading.

A partial recovery was staged from **Amsterdam's** midsession lows on the strength of Wall Street's higher opening. The second quarter US GNP figures, which still leave room for further discount rate cuts, also helped shares to turn higher.

The ANP-CBS general index registered a drop of 4.4 to 282.

Engineer VMF Stork fell a sharp Fl 18.20 to Fl 305.20, while publisher Elsevier was Fl 5.50 lower at Fl 199.50.

Banks also faltered with NMB Fl 8 lower at Fl 204 and ABN Fl 3 down at Fl 598.

Bond prices were little changed in slow trading.

Brussels traded moderately lower in thin volume. Among industrials, chemical stock Solvay declined BFr 170 to BFr 7,400 and Petrofina was BFr 70 lower at BFr 8650.

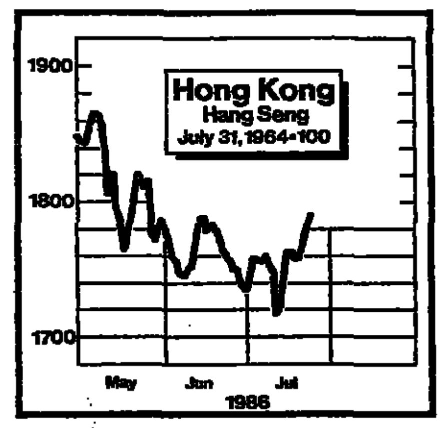
Against the trend, Tabacofina, a holding company in the tobacco sector, put on BFr 60 to BFr 2,860 amid speculation that it could become the subject of a takeover bid.

An easier trend in **Paris** was attributed to the approach of the end of the monthly trading account which has prompted investors to start selling *issues bought earlier in the month on free credit.*

Madrid edged lower but **Milan** and **Oslo** were little changed.

In **Stockholm**, however, a broad rally emerged following the announcement of a much larger than expected trade surplus in June and an optimistic forecast about the outlook for exports in the second half of the year.

In **Vienna**, the stock exchange reported that turnover rose to Sch 4.5bn in the first half of 1986 from Sch 4bn in the second half 1985 and Sch 2.4bn in the first half of 1985.



HONG KONG

STRONG LOCAL DEMAND for issues in the utilities and property sectors took Hong Kong higher as investors derived confidence from the underlying strength of the market.

The Hang Seng index withstood some profit-taking around midday to close a net 13.8 higher at 1,791.53.

Turnover of HK$523.31m, compared with Monday's HK$351.48m was the largest since the HK$811.24m registered on May 15 – the first day of trading in Cathay Pacific.

Continued market rumours of an impending takeover struggle at Hongkong and China Gas, the colony's only utility that is not controlled by another company, took the shares up 50 cents to HK$17.10.

This gave a lead to other utility stocks. China Light gained 20 cents to HK$15.30, Hongkong Electric 5 cents to HK$9 and Hongkong Telephone 40 cents to HK$12.20.

The property sector continued firm. Cheung Kong added 30 cents to HK$21.20, Hongkong and Kowloon Wharf 5 cents to HK$7.35 and Sun Hung Kai 10 cents to HK$12.60.

TOKYO

Wide swings conclude in firm upturn

A SHARPLY higher close was achieved in Tokyo yesterday after some wide fluctuations earlier in the day but trading was very quiet with institutional investors preferring to stay on the sidelines, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average, which fell 151 at mid-morning, registered a gain of 201 during the afternoon before ending at 17,639.32, up 117.10. Volume shrank to 566.92m shares from Monday's 655.17m. Advances outran declines by 475 to 392, with 120 issues unchanged.

The market made a weak start as individual investors increased small-lot selling, still shocked by the market's losses on Monday.

But their selling was lighter than expected, prompting the dealer sections of securities houses, investment trusts and some individual investors to place buy orders. However, concern over high price levels mounted toward the close, slowing down the rising tempo.

A major brokerage house said that institutional investors would not determine their investment strategies until a number of factors became clearer over the next few days. In particular, they would be watching the effect on the yen-dollar exchange rate and interest rate trends after yesterday's announcement of US gross national product figures and today's congressional testimony by Mr Paul Volcker, the Federal Reserve Board chairman.

Helping to ease the bearish market climate were sharp rallies by Tokyo Gas and Ohbayashi.

Tokyo Gas, which lost Y18 to Y580 at one stage, turned high later to hit an all-time high of Y606, eclipsing the previous peak of Y597 reached last Saturday. The issue finished Y27 higher at Y605.

Ohbayashi opened Y6 lower, but small-lot buying pushed up the issue by Y41 to Y736 before it ended Y34 higher at Y729. Tokyo Electric Power, which lost Y160 at one stage, finished at Y4,870, up Y60.

Speculative issues also fared well, with Taiyo Fishery adding Y37 to Y500 and Keisei Electric Railway Y39 to Y659. Sumitomo Light Metal Industries, the third biggest issue with 25.66m shares traded, surged Y40 to Y396 on rumours of the stock being cornered.

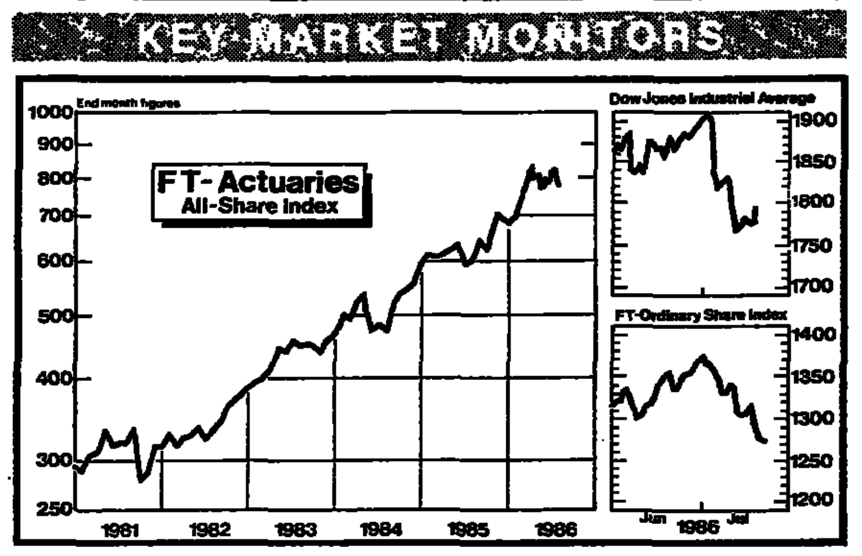
Conversely, blue chips, which rebounded sharply toward the close of Monday's trading, were out of favour. Hitachi shed Y10 to Y770.

Also unpopular were leading shares among domestic demand expansion-related issues, including Mitsubishi Estate, which closed Y40 lower at Y2,130.

In the bond market, institutional investors and dealers retreated to the sidelines in the absence of fresh incentives. The yield on the benchmark 6.2 per cent government bonds, due in July 1995, rose to 4.705 per cent at one stage. Later, however, it fell to 4.690 per cent, compared with Monday's 4.685 per cent.

Bond trading was depressed by speculation that the issue amount of long-term government bonds to be issued in August might reach Y450bn, about twice as the amount for the July issue.

KEY MARKET MONITORS



STOCK MARKET INDICES

	July 22	Previous	Year ago
NEW YORK			
DJ Industrials	1,792.18*	1,779.11	1,357.64
DJ Transport	728.50*	720.38	701.90
DJ Utilities	205.09*	203.61	164.65
S&P Composite	238.23*	236.29	194.35
LONDON			
FT Ord	1,274.7	1,276.3	921.1
FT-SE 100	1,559.2	1,560.2	1,241.1
FT-A All-share	774.43	775.58	595.12
FT-A 500	848.20	849.01	647.66
FT Gold mines	189.7	188.4	386.7
FT-A Long gilt	9.61	9.65	10.24
TOKYO			
Nikkei	17,639.32	17,522.22	12,771.7
Tokyo SE	1,395.02	1,386.63	1,042.40
AUSTRALIA			
All Ord.	1,136.7	1,135.4	926.5
Metals & Mins.	506.3	508.3	536.4
AUSTRIA			
Credit Aktien	233.25	234.75	99.93
BELGIUM			
Belgian SE	3,642.06	closed	2,311.42
CANADA	July 22	Prev	Year ago
Toronto			
Metals & Mints	1,999.1*	1,968.9	2,014
Composite	2,973.4*	2,968.1	2,797.4
Montreal			
Portfolio	1,487.04*	1,485.17	138.74
DENMARK			
SE	206.92	207.05	209.77
FRANCE			
CAC Gen	363.70	366.70	217.9
Ind. Tendance	138.10	139.10	80.8
WEST GERMANY			
FAZ-Aktien	583.92	589.12	481.44
Commerzbank	1,762.40	1,774.90	1,416.3
HONG KONG			
Hang Seng	1,791.53	1,777.73	1,689.85
ITALY			
Banca Comm.	682.65	n/a	358.75
NETHERLANDS			
ANP-CBS Gen	282.00	286.40	219.2
ANP-CBS Ind	282.80	287.60	186.3
NORWAY			
Oslo SE	347.39	349.40	346.53
SINGAPORE			
Straits Times	728.78	734.18	769.23
SOUTH AFRICA			
JSE Golds	–	1,325.4	914.1
JSE Industrials	–	1,219.2	1,006.7
SPAIN			
Madrid SE	172.15	173.20	80.91
SWEDEN			
J & P	n/a	2,443.31	1,347.15
SWITZERLAND			
Swiss Bank Ind	503.40	520.70	460.7
WORLD	July 21	Prev	Year ago
MS Capital Int'l	323.1	323.0	221.9

COMMODITIES

(London)	July 22	Prev
Silver (spot fixing)	336.35p	336.00p
Copper (cash)	£895.50	£889.00
Coffee (September)	£1,901.00	£1,827.50
Oil (Brent blend)	$9.30	$9.925

GOLD (per ounce)

	July 22	Prev
London	$353.75	$353.75
Zürich	$353.70	$354.25
Paris (fixing)	$352.40	$355.48
Luxembourg	$353.60	$354.10
New York (Aug)	$353.70	$355.60

CURRENCIES

(London)	US DOLLAR July 22	US DOLLAR Previous	STERLING July 22	STERLING Previous
$	–	–	1.4905	1.4995
DM	2.1370	2.1195	3.1850	3.1775
Yen	156.75	155.0	233.5	232.5
FFr	6.8975	6.8525	10.28	10.275
SFr	1.7270	1.7115	2.575	2.5675
Guilder	2.4080	2.3915	3.59	3.5850
Lira	1,465	1,456.5	2,183.5	2,184
BFr	44.00	n/a	65.55	65.60
C$	1.3835	1.3757	2.0615	2.0647

INTEREST RATES

	July 22	Prev
Euro-currencies (3-month offered rate)		
£	10⅛	10⅛
SFr	4¹⁵⁄₁₆	4¹³⁄₁₆
DM	4⅝	4⅝
FFr	7⅛	7³⁄₁₆
FT London Interbank fixing (offered rate)		
3-month US$	6⁹⁄₁₆	6⅝
6-month US$	6⁹⁄₁₆	6⅝
US Fed Funds	6⅝*	6½
US 3-month CDs	6.15*	6.45
US 3-month T-bills	5.705*	5.89

US BONDS

Treasury

		July 22 Price	July 22 Yield	Prev Price	Prev Yield
7⅛	1988	100²¹⁄₃₂	6.561	100²⁷⁄₃₂	6.537
7¼	1993	100²³⁄₃₂	7.081	101⁵⁄₃₂	7.053
7⅜	1996	101¹⁵⁄₃₂	7.175	101¹⁹⁄₃₂	7.135
7¼	2016	100⅝	7.236	100²³⁄₃₂	7.177

Source: Harris Trust Savings Bank

Treasury Index

Maturity (years)	Return index (July 22*)	Day's change	Yield	Day's change
1–30	154.35	–0.33	7.20	+0.03
1–10	146.84	–0.09	6.97	+0.02
1– 3	137.71	–0.03	6.65	+0.02
3– 5	148.96	–0.11	7.14	+0.03
15–30	181.36	–1.13	7.99	+0.07

Source: Merrill Lynch

Corporate	July 22 Price	July 22 Yield	Prev Price	Prev Yield
AT & T				
3⅞ July 1990	90⅞	6.59	90⅞	6.59
SCBT South Central				
10⅞ Jan 1993	106.10	9.28	106.60	9.23
Phibro-Sal				
8 April 1996	99	8.10	99½	8.05
TRW				
8¾ March 1996	103.20	8.18	103.70	8.13
Arco				
9⅞ March 2016	104½	9.41	105	9.36
General Motors				
8⅝ April 2016	92	8.90	92¾	8.82
Citicorp				
9⅜ March 2016	97¼	9.64	98	9.58

Source Salomon Brothers

FINANCIAL FUTURES

CHICAGO	Latest	High	Low	Prev
US Treasury Bonds (CBT) 8% 32nds of 100%				
Sept	99-03	99-12	98-13	99-31
US Treasury Bills (IMM) $1m points of 100%				
Sept	94.51	94.52	94.45	94.54
Certificates of Deposit (IMM) $1m points of 100%				
Sept	93.90	93.90	93.90	94.00
LONDON				
Three-month Eurodollar $1m points of 100%				
Sept	93.59	93.63	93.54	93.65
20-year Notional Gilt £50,000 32nds of 100%				
Sept	119-28	119-29	118-24	119-02

* *Latest available figures*